

Docket:	:	<u>A.06-07-023</u>
Exhibit Number	:	_____
Commissioner	:	<u>John Bohn</u>
Admin. Law Judge	:	<u>Christine Walwyn</u>
DRA Project Mgr.	:	<u>Yoke Chan</u>



**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**REPORT ON THE  
RESULTS OF OPERATIONS  
IN WESTLAKE DISTRICT  
OF  
CALIFORNIA WATER SERVICE COMPANY  
Test Year 2007-2008 and  
Escalation Years 2008-2009 and 2009-2010  
Application 06-07-023**

For authority to increase water rates located in its  
Westlake district serving Westlake Village  
and vicinity, Ventura County.

San Francisco, California  
December 8, 2006

## **TABLE OF CONTENTS**

1		
2	EXECUTIVE SUMMARY .....	II
3	CHAPTER 1: OVERVIEW AND POLICY .....	1-1
4	A. INTRODUCTION.....	1-1
5	B. SUMMARY OF RECOMMENDATIONS .....	1-1
6	C. DISCUSSION .....	1-1
7	D. CONCLUSION .....	1-2
8	CHAPTER 2: WATER CONSUMPTION AND OPERATING	
9	REVENUES.....	2-1
10	A. INTRODUCTION.....	2-1
11	B. SUMMARY OF RECOMMENDATIONS .....	2-2
12	C. DISCUSSION .....	2-3
13	D. CONCLUSION .....	2-7
14	CHAPTER 3: OPERATION AND MAINTENANCE EXPENSES.....	3-1
15	A. INTRODUCTION.....	3-1
16	B. SUMMARY OF RECOMMENDATIONS .....	3-2
17	C. DISCUSSION .....	3-4
18	D. CONCLUSION .....	3-15
19	CHAPTER 4: ADMINISTRATIVE AND GENERAL EXPENSES.....	4-1
20	A. INTRODUCTION.....	4-1
21	B. SUMMARY OF RECOMMENDATIONS .....	4-1
22	C. DISCUSSION .....	4-1
23	D. CONCLUSION .....	4-3
24	CHAPTER 5: TAXES OTHER THAN INCOME .....	5-1
25	A. INTRODUCTION.....	5-1
26	B. SUMMARY OF RECOMMENDATIONS .....	5-1
27	C. CONCLUSION .....	5-1
28	CHAPTER 6: INCOME TAXES .....	6-1
29	A. INTRODUCTION.....	6-1
30	B. SUMMARY OF RECOMMENDATIONS .....	6-1
31	C. DISCUSSION .....	6-1

1	CHAPTER 7: UTILITY PLANT IN SERVICE.....	7-1
2	A. INTRODUCTION.....	7-1
3	B. SUMMARY OF RECOMMENDATIONS .....	7-1
4	C. DISCUSSION .....	7-2
5	D. CONCLUSION .....	7-9
6	CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION	
7	EXPENSE .....	8-1
8	A. INTRODUCTION.....	8-1
9	B. SUMMARY OF RECOMMENDATIONS .....	8-1
10	C. DISCUSSION .....	8-1
11	D. CONCLUSION .....	8-1
12	CHAPTER 9: RATEBASE .....	9-1
13	A. INTRODUCTION.....	9-1
14	B. SUMMARY OF RECOMMENDATIONS .....	9-1
15	C. DISCUSSION .....	9-2
16	CHAPTER 10: CUSTOMER SERVICE .....	10-1
17	A. INTRODUCTION.....	10-1
18	B. SUMMARY OF RECOMMENDATIONS .....	10-1
19	C. DISCUSSION .....	10-1
20	D. CONCLUSION .....	10-2
21	CHAPTER 11: RATE DESIGN.....	11-1
22	A. INTRODUCTION.....	11-1
23	B. SUMMARY OF RECOMMENDATIONS .....	11-1
24	C. DISCUSSION .....	11-2
25	D. CONCLUSION .....	11-2
26	CHAPTER 12: SPECIAL REQUESTS .....	12-1
27	A. INTRODUCTION.....	12-1
28	B. SUMMARY OF RECOMMENDATIONS .....	12-1
29	CHAPTER 13: ESCALATION YEAR INCREASES .....	13-1
30	A. FIRST ESCALATION YEAR .....	13-1
31	B. SECOND ESCALATION YEAR .....	13-1

1	C. ESCALATION YEARS INCREASES .....	13-2
2	<b>APPENDIX A – QUALIFICATIONS AND PREPARED TESTIMONY</b>	

1 **MEMORANDUM**

2  
3 The Division of Ratepayer Advocates (“DRA”) of the California Public  
4 Utilities Commission (“Commission”) prepared this report in the California Water  
5 Service Company’s (“CWS”) rate case proceeding A.06-07-023 rate case  
6 proceeding. In this docket, the applicant requests an order for authorization to  
7 increase rates charged for water service by \$ 2,187,800 or 22.25% in fiscal year  
8 2007-2008; by \$330,400 or 2.75% in fiscal year 2008-2009; and by \$330,400 or  
9 2.67% in fiscal year 2009-2010 in its Westlake District service area. In this report  
10 DRA presents its analysis and recommendations associated with the Applicant’s  
11 request.

12 Yoke Chan serves as DRA’s project coordinator in this review and is  
13 responsible for the overall coordination in the preparation of this report. DRA’s  
14 witnesses’ prepared qualifications and testimony are contained in Appendix A of  
15 this report.

16 DRA’s legal counsel for this case is Selina Shek.

17 DRA’s recommendation on Cost of Capital is discussed in a separate  
18 report.

## EXECUTIVE SUMMARY

CWS requested an increase of 22.25% in test year 2007-08 and 2.75% in escalation year 2008-09, whereas DRA recommends an increase of 1.7% in test year 2007-08 and inflationary increases for the escalation years.

### **Key Recommendations**

DRA's recommendations are based on lower estimates of Operation and Maintenance expenses (Chapter 3), lower estimates of Administrative and General expenses (Chapter 4), lower Plant additions (Chapter 7), a lower Cost of Capital of 9.54% and lower Rate of Return on Rate Base of 8.30% for 2007-2008 and 2008-2009 (Chapters 1 and 13).

In additions, DRA recommends the following treatment to CWS' Special Requests as discussed further in Chapter 12:

#### **(a) Water Quality**

CWS requests that the Commission make a finding that the district water quality meets all applicable state and federal drinking water standards and the provisions of General Order 103. DRA reviews CWS' filings and agrees that CWS has complied with applicable water quality standards during the most recent three-year period.

#### **(b) Water Revenue Adjustment Mechanism**

CWS requests a revenue adjustment mechanism that decouples sales and revenues. This was excluded in the scope of this proceeding.

1                   (c) Filing an offset rate increase in 2008 to reflect the General  
2 Office allocation adopted in CWS' 2007 GRC

3           CWS requests authorization to file an offset rate increase in 2008 to reflect  
4 the general office allocation adopted in its 2007 general rate case filing. This was  
5 excluded in the scope of this proceeding.

6                   (d) GO Synergy Memorandum Account

7           CWS requests to amortize the General Office synergies memorandum  
8 account adopted in D. 03-09-021 and merger savings established in D. 04-04-041.  
9 DRA reviews and agrees with CWS' request.

10                   (e) To amortize all balancing and memorandum accounts

11           CWS requests an authority to amortize all balancing and memorandum  
12 account balances in this district. DRA agrees that all balancing and memorandum  
13 accounts should be amortized.

14                   (f) To file the next General Rate Case for Westlake in 2008

15           CWS requests only one attrition year so that the next Westlake GRC can be  
16 filed in 2008. DRA does not oppose CWS' request.

17

**List of DRA Witnesses and Respective Chapters**

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Policy Introduction and Summary of Earnings	Yoke Chan
2	Water Consumption and Operating Revenues	Toni Canova
3	Operation and Maintenance Expenses	Vibert Greene
4	Administrative and General Expenses	Cleason Willis
5	Taxes Other Than Income	Cleason Willis
6	Income Taxes	Vibert Greene
7	Utility Plant in Service	Clement Lan
8	Depreciation Reserve and Depreciation Expense	Joyce Steingass
9	Rate Base	Joyce Steingass
10	Customer Service	Katie Liu
11	Rate Design	Tatiana Olea
12	Special Requests	Lan, Chan,
13	Escalation Year Increases	Yoke Chan

1                               **CHAPTER 1: OVERVIEW AND POLICY**

2           **A. INTRODUCTION**

3           This report sets forth the analysis and recommendations of DRA pertaining  
4 to A. 06-07-023 CWS’ general rate increase request for Test Year 2007-2008 and  
5 Escalation Years 2008-2009 and 2009-2010.

6           **B. SUMMARY OF RECOMMENDATIONS**

7           Tables 1-1 through 1-3 on the Summary of Earnings compare the results of  
8 operations for the Test Year 2007-2008 including revenues, expenses, taxes and  
9 ratebase.

10          **C. DISCUSSION**

11          The total revenues requested by CWS are as follows:

12                   Year                   Amount of Increase                   Percent

13           2007-2008                   \$ 2,187,800                   22.25%

14           2008-2009                   \$ 330,400                   2.75%

15           2009-2010                   \$ 330,400                   2.67%

16          CWS estimates that its proposed rates in the application will produce  
17 revenues providing the following returns:

18                   Year                   Return on Rate Base                   Return on Equity

19           2007-2008                   9.89%                   12.37%

20           2008-2009                   9.89%                   12.37%

21           2009-2010                   9.89%                   12.37%

1       **D. CONCLUSION**

2           DRA recommends revenue increase for the test year as follows (Escalation  
3   Years 2008-2009 and 2009-2010 are covered in Chapter 13):

4	<u>Year</u>	<u>Amount of Increase</u>	<u>Percent</u>
5	2007-08	\$171,200	1.7%

6           The last general rate increase for CWS was authorized by D. 03-09-021 in  
7   Application A. 01-09-062, resulting in a rate of return on rate base of 8.60% in  
8   2005. Present Rates used by DRA in this report are based on advice letter 1732  
9   which became effective July 22, 2005.

10          A comparison of DRA's and CWS' estimates for rate of return on rate base  
11   for the Test Year 2007-2008 and Escalation Year at the present and the utility's  
12   proposed rates is shown below:

13	RATE OF RETURN						
14		<u>DRA</u>		<u>CWS</u>		<u>Diff</u>	
15		<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>
16	Present Rates	6.20%	8.03%	1.42%	-0.03%	-4.78%	-8.06%
17	Proposed Rates	33.31%	40.04%	9.89%	9.89%	-23.42%	-30.14%

TABLE 1-1  
CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

SUMMARY OF EARNINGS

TEST YEAR            2007 - 2008

(AT PRESENT RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	9,833.6	9,833.6	0.0	0.0%
Operating expenses:				
Operation & Maintenance	7,514.1	7,657.4	143.3	1.9%
Administrative & General	187.7	187.7	0.0	0.0%
G. O. Prorated Expense	1,116.3	1,178.8	62.5	5.6%
Dep'n & Amortization	402.9	558.3	155.4	38.6%
Taxes other than income	187.7	225.8	38.1	20.3%
State Corp. Franchise Tax	7.5	(66.6)	(74.1)	-988.7%
Federal Income Tax	136.4	(113.7)	(250.1)	-183.4%
Total operating exp.	9,552.6	9,627.7	75.1	0.8%
Net operating revenue	281.0	205.9	(75.1)	-26.7%
Rate base	4,531.3	14,501.3	9,970.0	220.0%
Return on rate base	6.20%	1.42%	-4.78%	-77.1%

TABLE 1-2

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

SUMMARY OF EARNINGS

TEST YEAR            2007 - 2008

(AT UTILITY PROPOSED RATES)

Item	DRA Estimate	CWS Estimate	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	12,021.4	12,021.4	0.0	0.0%
Operating expenses:				
Operation & Maintenance	7,515.4	7,658.7	143.3	1.9%
Administrative & General	187.7	187.7	0.0	0.0%
G. O. Prorated Expense	1,116.3	1,178.8	62.5	5.6%
Dep'n & Amortization	402.9	558.3	155.4	38.6%
Taxes other than income	206.3	244.4	38.1	18.5%
State Corp. Franchise Tax	199.1	125.0	(74.1)	-37.2%
Federal Income Tax	884.5	634.4	(250.1)	-28.3%
Total operating exp.	10,512.2	10,587.3	75.1	0.7%
Net operating revenue	1,509.2	1,434.1	(75.1)	-5.0%
Rate base	4,531.3	14,501.3	9,970.0	220.0%
Return on rate base	33.31%	9.89%	-23.42%	-70.3%

TABLE 1-3  
CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

SUMMARY OF EARNINGS

TEST YEAR            2007 - 2008

(DRA ESTIMATES)

Item	DRA Est. @ Present Rates	@ Rates Proposed by DRA	Proposed Exceeds Present Amount	%
(Thousands of \$)				
Operating revenues	9,833.6	10,004.8	171.2	1.7%
Operating expenses:				
Operation & Maintenance	7,514.1	7,514.2	0.1	0.0%
Administrative & General	187.7	189.5	1.8	0.9%
G. O. Prorated Expense	1,116.3	1,116.3	0.0	0.0%
Dep'n & Amortization	402.9	402.9	0.0	0.0%
Taxes other than income	187.7	187.7	0.0	0.0%
State Corp. Franchise Tax	7.5	22.5	15.0	199.6%
Federal Income Tax	136.4	195.6	59.3	43.5%
Total operating exp.	9,552.6	9,628.7	76.1	0.8%
Net operating revenue	281.0	376.1	95.1	33.8%
Rate base	4,531.3	4,531.3	0.0	0.0%
Return on rate base	6.20%	8.30%	2.10%	33.8%

## CHAPTER 2: WATER CONSUMPTION AND OPERATING REVENUES

### A. INTRODUCTION

This Chapter presents DRA's analysis and recommendations on water consumption and operating revenues for CWS' Westlake District. DRA analyzed CWS' report, supporting work papers, methods of estimating water consumption and operating revenue, data responses, and supplementary data before formulating its own estimates. Table 2-A presents a summary of estimates developed by DRA and CWS.

**Table 2-A Summary of Projected Consumption and Revenues**

	<u>DRA</u>		<u>CWS</u>		<u>CWS Exceeds DRA</u>	
	2007-08	2008-09	2007-08	2008-09	2007-08	2008-09
<b>Total Operating Revenues (\$000)</b>						
Present Rates	9,833.6	9,868.3	9,833.6	9,868.3	0.0	0.0
Utility Proposed Rates	12,021.4	12,351.8	12,021.4	12,351.8	0.0	0.0
<b>Average Number of Customers</b>						
Metered	6,961	6,982	6,961	6,982	0.0	0.0
Fire Protection	143	148	143	148	0.0	0.0
<b>Water Sales By Customer Class (Kccf/yr)</b>						
Residential	2,606.8	2,614.4	2,606.8	2,614.4	0.0	0.0
Business	1,011.8	1,016.9	1,011.8	1,016.9	0.0	0.0
Multi-Family	97.7	97.7	97.7	97.7	0.0	0.0
Industrial	26.3	26.3	26.3	26.3	0.0	0.0
Public Authority	139.9	139.9	139.9	139.9	0.0	0.0
Other	0.6	0.6	0.6	0.6	0.0	0.0
Reclaimed	110.3	110.3	110.3	110.3	0.0	0.0
<b>Water Sales Per Average Customer (CCF/Connection/Year)</b>						
Residential	421.4	421.4	421.4	421.4	0.0	0.0
Business	1,725.1	1,725.1	1,725.1	1,725.1	0.0	0.0
Multi-Family	1,502.8	1,502.8	1,502.8	1,502.8	0.0	0.0
Industrial	1,753.3	1,753.3	1,753.3	1,753.3	0.0	0.0
Public Authority	1,608.0	1,608.0	1,608.0	1,608.0	0.0	0.0
Other	100.0	100.0	100.0	100.0	0.0	0.0
Reclaimed	7,353.3	7,353.3	7,353.3	7,353.3	0.0	0.0

## **B. SUMMARY OF RECOMMENDATIONS**

### **1) Number of Customers**

DRA has reviewed CWS' estimating methodology for determining the number of customers in the Test Year. CWS used a five-year average of annual customer growth to estimate the incremental number of customers unless there are mitigating outside factors. DRA accepts CWS' estimates for the number of customers in each of the six classes of customers for the Test Year.

### **2) Operating Revenues**

DRA accepts CWS' revenue forecasting methodology. A detailed comparison for the Test Year is shown in Tables 2-6, and 2-7.

### **3) Consumption**

CWS used 10 years of monthly temperature and rainfall data to develop the regression models and forecasts. CWS adjusted the data to remove the first four inches of rain recorded and to account for the billing lag associated with the temperature data. It is consistent with Commission practice to remove the first four inches of rainfall. This adjustment is necessary because, historically, rainfall above 4 inches during a month does not impact consumption. CWS' consultant used Econometric Views ("E-Views") to specify the regression models and develop the forecasts. Using E-Views software to estimate consumption per customer is now standard practice and is consistent with the "New Committee Method" recommended in D.04-06-018, the General Rate Case Plan for Class A Water Companies. In instances where the regression model yielded unsatisfactory statistics, for example, in the Residential and Other categories, a different estimating methodology was selected. Unsatisfactory statistics are indicated by a low R-squared, a Durbin-Watson statistic value not close to 2.00, and a low variable coefficient t-statistic.

1 While preparing its estimates, DRA reviewed and confirmed CWS' models  
2 and forecasts. DRA accepts CWS' general forecasting methodology. DRA's and  
3 CWS' estimates are generally derived from the average-use-per connection  
4 forecasted for 2006 and then incorporated customer growth in 2007 and 2008.  
5 These forecasts are then averaged to derive the Fiscal Test Year estimates for  
6 2007-08, and the Escalation Fiscal Year 2008-09. Detailed discussions of the  
7 forecasts are below.

#### 8 **4) Unaccounted For Water (UFW)**

9 CWS used a three-year average unaccounted for water percentage of  
10 2.74%. DRA finds this reasonable and recommends the Commission adopt this  
11 percentage.

### 12 **C. DISCUSSION**

#### 13 **1) Number of Customers**

14 DRA's and CWS' customer forecasts are shown in Table 2-A above and at  
15 the end of the Chapter in Tables 2-2 and 2-3.

#### 16 **2) Operating Revenues**

17 Revenues requested by CWS and recommended by DRA based on the  
18 present and proposed rates are shown above in Table 2-A, and at the end of the  
19 Chapter in Tables 2-6 and 2-7.

#### 20 **3) Consumption**

21 DRA reviewed CWS' forecasts and developed its forecasts utilizing the  
22 same set of historical data. DRA used an E-Views forecast where the statistics  
23 indicated good results (an R-squared close to 1.00, a Durbin-Watson statistic near  
24 2.00, and significant t-statistics) from using an E-Views model. In other instances,  
25 DRA used an average of historical consumption similar to how CWS developed its

forecast. DRA's and CWS' forecasts are shown in Table 2-A above, and at the end of the Chapter in Table 2-1.

The basic forecast equation starts with a constant term, a temperature variable, a rain variable, and a time variable. Depending on the statistics generated by this simple model adjustments may be made to the model to provide a superior estimate. Some of the modifications may include substituting the individual monthly temperature variables, including an autoregressive term, or including a dummy variable. Specific forecasts are discussed below.

#### (a) Residential

DRA used the same forecast method as CWS. The E-Views equation included a constant term, twelve temperature variables (representing each month), and a time variable. After reviewing the results of the water sales E-Views model, both DRA and CWS observed that the results were too low and did not fairly represent future water sales potential for this customer class. A five-year average calculation of historic consumption for metered sales per customer gives a better representation. DRA agrees with CWS' method of forecasting residential sales.

CWS calculated annual residential water consumption by multiplying the projected consumption per customer in hundreds of cubic feet ("Ccf") by the projected number of customers then divided by one thousand to convert to thousands of cubic feet ("Kccf"). CWS' multiplied its forecast result of 421.4 Ccf per customer by the average number of customers per year then divided by 1000 to estimate the total metered sales for 2006, 2007, and 2008. To estimate the 2007-08 Fiscal Test Year sales, CWS used an average of the 2007 and 2008 estimates. DRA agrees with the resulting total water sales of 2,606.8 Kccf per year for residential customer class as shown above in Table 2-A.

1 (b) Business

2 DRA used the same forecast method as CWS. The E-Views model  
3 returned statistical results that were too low compared to historic usage, so it was  
4 not used. Both DRA and CWS used a five-year average consumption resulting in a  
5 forecast of 1,725.1 Ccfs per connection per year. DRA and CWS multiplied this  
6 consumption by the average number of customers then divided by one thousand to  
7 derive the Total Metered Sales of 1,011.8 Kccf per year for Fiscal Test Year 2007-  
8 08. DRA agrees with this forecast method and the resulting forecast.

9 (c) Multifamily

10 DRA used the same forecast method as CWS. The E-Views equation  
11 included a constant term, twelve temperature variables, a time variable, and four  
12 dummy variables to remove data point errors. Because the regression model did  
13 not yield satisfactory statistics CWS used a five-year average method to forecast  
14 sales. DRA concurs with CWS' forecast method and the results of 1,502.8 Ccfs  
15 per connection per year and a calculated Total Metered Sales of 97.7 Kccf per year  
16 for the Fiscal Test Year of 2007-08.

17 (d) Industrial

18 DRA used the same forecast method as CWS. The E-Views standard  
19 equation included a constant term, twelve temperature variables, a time variable,  
20 an autoregressive term, and three dummy variables to remove data point errors.  
21 The E-views equation returned good statistics so it was used for forecasting sales.  
22 CWS forecasts 26.3 Kccf total consumption per year. This calculates to 1,753.3  
23 Ccf per average customer by dividing the total consumption by the average  
24 number of customers then multiplying by one thousand. DRA agrees with this  
25 forecasting method and its results for Fiscal Test Year 2007-08.

1 (e) Public Authority

2 DRA used the same forecast method as CWS. The E-Views model was  
3 used to forecast sales for the public authority customer class. The regression  
4 equation included a constant term, twelve temperature variables, a time variable,  
5 and an autoregressive term. DRA agrees with CWS' forecast 139.9 Kccf total  
6 consumption. To calculate the consumption per customer the total consumption in  
7 Kccfs is divided by the average number of customers then multiplied by 1,000 to  
8 derive 1,608.0 Ccf consumption per customer per year for Fiscal Test Year 2007-  
9 08. DRA finds this reasonable and concurs with CWS' forecast.

10 (f) Other

11 Because the Other sales category varies considerably CWS did not use the  
12 E-Views model. CWS also did not use a five-year average because the sales level  
13 has decreased significantly over time, especially in the last few years. CWS used  
14 the last recorded year to forecasts 0.6 Kccf for total consumption. This is then  
15 divided by the average number of customer and multiplying by 1000 the forecast  
16 of 100.0 Ccfs per customer per year. DRA concurs with this forecasting method  
17 and the results for Fiscal Test Year 2007-08.

18 (g) Irrigation

19 There is no irrigation class in this District.

20 (h) Reclaimed

21 DRA used the same forecast method as CWS. CWS did not use the E-  
22 Views model due to unsatisfactory statistic results. The use pattern has changed  
23 since 2003 compared to previous use and is significantly lower in the last three  
24 years. Thus, CWS used a three-year average of 2003 to 2005 to forecast total  
25 annual reclaimed sales of 110.3 Kccf, which is then calculated to 7,353.3 Ccf per

1 connection per year. DRA agrees with this method and the resulting forecast of  
2 sales.

#### 3 **4) Unaccounted For Water (“UFW”)**

4 Westlake District does not have any flat rate residential customers, so the  
5 actual amount of UFW can be measured and projected relatively accurately. UFW  
6 includes leakage of water from the system prior to sale and water used for system  
7 flushing and maintenance. CWS estimates 2.74% for unaccounted for water based  
8 on a three-year average. DRA agrees with this estimation.

#### 9 **5) Total Water Consumption and Supply**

10 Total water consumption is the sum of metered and un-metered sales and  
11 unaccounted for water. Westlake District does not have any flat rate residential  
12 customers, but does have a small number of private and public fire protection un-  
13 metered customers. The source of water supply is purchased water from the  
14 Calleguas Municipal Water District (CMWD), and some reclaimed water. CWS  
15 does not have any company groundwater wells in this District. The total  
16 consumption and water supply levels for the Test Year and Escalation Year are  
17 shown in Tables 2-4 and 2-5.

### 18 **D. CONCLUSION**

#### 19 **1) Number of Customers**

20 DRA concurs with CWS’ estimated number of customers for the Test  
21 Years as shown in Tables 2-2 and 2-3.

#### 22 **2) Operating Revenues**

23 DRA finds CWS’ revenue forecast reasonable and recommends the  
24 Commission adopt the revenue forecasts shown in Tables 2-6 and 2-7.

1           **3) Consumption**

2           DRA finds CWS' forecasts of consumption reasonable and recommends  
3           the Commission adopt the numbers shown in Table 2-1. Total Sales and Supply is  
4           shown in Tables 2-4 and 2-5.

5           **4) Unaccounted For Water**

6           DRA finds CWS' three-year average percentage recommendation of 2.74%  
7           UFW reasonable and it should be adopted.

---

TABLE 2-1

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT  
WATER SALES PER AVERAGE CUSTOMER

TEST YEAR      2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(CCF/CONN./YR)				
Residential	421.4	421.4	0.0	0.0%
Business	1,725.1	1,725.1	0.0	0.0%
Multiple Family	1,502.8	1,502.8	0.0	0.0%
Industrial	1,753.3	1,753.3	0.0	0.0%
Public Authority	1,608.0	1,608.0	0.0	0.0%
Other	100.0	100.0	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	7,353.3	7,353.3	0.0	0.0%

TABLE 2-2

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

AVERAGE NUMBER OF CUSTOMERS

TEST YEAR                      2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
<u>Metered Connections</u>				
Residential	6,186	6,186	0	0.0%
Business	587	587	0	0.0%
Multiple Family	65	65	0	0.0%
Industrial	15	15	0	0.0%
Public Authority	87	87	0	0.0%
Other	6	6	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	15	15	0	0.0%
Total metered connections	6,961	6,961	0	0.0%
<u>Flat Rate Connections</u>				
Residential Flat	0	0	0	0.0%
Private Fire Protection	137	137	0	0.0%
Public Fire Protection	6	6	0	0.0%
Total flat rate connections	143	143	0	0.0%
<u>Total Active Connections</u>				
Include Fire Protection	7,104	7,104	0	0.0%
Exclude Fire Protection	6,961	6,961	0	0.0%

TABLE 2-3

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

AVERAGE NUMBER OF CUSTOMERS

ESCALATION YEAR                      2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
<u>Metered Connections</u>				
Residential	6,204	6,204	0	0.0%
Business	590	590	0	0.0%
Multiple Family	65	65	0	0.0%
Industrial	15	15	0	0.0%
Public Authority	87	87	0	0.0%
Other	6	6	0	0.0%
Irrigation	0	0	0	0.0%
Reclaimed	15	15	0	0.0%
Total metered connections	6,982	6,982	0	0.0%
<u>Flat Rate Connections</u>				
Residential Flat	0	0	0	0.0%
Private Fire Protection	142	142	0	0.0%
Public Fire Protection	6	6	0	0.0%
Total flat rate connections	148	148	0	0.0%
<u>Total Active Connections</u>				
Include Fire Protection	7,130	7,130	0	0.0%
Exclude Fire Protection	6,982	6,982	0	0.0%

TABLE 2-4  
CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

TOTAL SALES AND SUPPLY

TEST YEAR                      2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(KCCF/YEAR)				
<u>Metered Sales</u>				
Residential	2,606.8	2,606.8	0.0	0.0%
Business	1,011.8	1,011.8	0.0	0.0%
Multiple Family	97.7	97.7	0.0	0.0%
Industrial	26.3	26.3	0.0	0.0%
Public Authority	139.9	139.9	0.0	0.0%
Other	0.6	0.6	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	110.3	110.3	0.0	0.0%
<hr/>				
Total metered sales	3,993.4	3,993.4	0.0	0.0%
<u>Flat Rate Sales</u>				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 2.74%	112.6	112.6	(0.0)	0.0%
<hr/>				
Total delivered	4,106.0	4,106.0	(0.0)	0.0%
 <u>Supply</u>				
Company Wells	0.0	0.0	0.0	0.0%
Leased Wells	0.0	0.0	0.0	0.0%
Purchases - CMWD	3,991.6	3,991.6	0.0	0.0%
Purchases - Reclaimed	114.4	114.4	0.0	0.0%
<hr/>				
Total production	4,106.0	4,106.0	0.0	0.0%

TABLE 2-5  
CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

TOTAL SALES AND SUPPLY

ESCALATION YEAR                      2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(KCCF/YEAR)				
<u>Metered Sales</u>				
Residential	2,614.4	2,614.4	0.0	0.0%
Business	1,016.9	1,016.9	0.0	0.0%
Multiple Family	97.7	97.7	0.0	0.0%
Industrial	26.3	26.3	0.0	0.0%
Public Authority	139.9	139.9	0.0	0.0%
Other	0.6	0.6	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	110.3	110.3	0.0	0.0%
<hr/>				
Total metered sales	4,006.2	4,006.2	0.0	0.0%
<u>Flat Rate Sales</u>				
Residential	0.0	0.0	0.0	0.0%
Unaccounted For Water 2.74%	113.0	113.0	0.0	0.0%
<hr/>				
Total delivered	4,119.2	4,119.2	0.0	0.0%
<u>Supply</u>				
Company Wells	0.0	0.0	0.0	0.0%
Leased Wells	0.0	0.0	0.0	0.0%
Purchases - CMWD	4,004.8	4,004.8	0.0	0.0%
Purchases - Reclaimed	114.4	114.4	0.0	0.0%
<hr/>				
Total production	4,119.2	4,119.2	0.0	0.0%

TABLE 2-6

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

OPERATING REVENUES

TEST YEAR            2007 - 2008

(AT PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>Metered Revenues</u>				
Residential	6,565.2	6,565.2	0.0	0.0%
Business	2,360.9	2,360.9	0.0	0.0%
Multiple Family	250.9	250.9	0.0	0.0%
Industrial	64.7	64.7	0.0	0.0%
Public Authority	332.7	332.7	0.0	0.0%
Other	4.8	4.8	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	185.6	185.6	0.0	0.0%
<hr/>				
Total General Metered	9,764.8	9,764.8	0.0	0.0%
<u>Flat Rate Revenues</u>				
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	54.3	54.3	0.0	0.0%
Public Fire Protection	2.9	2.9	0.0	0.0%
Other	0.8	0.8	0.0	0.0%
<hr/>				
Total Flat Rate	57.9	57.9	0.0	0.0%
Deferred Revenues	10.9	10.9	0.0	0.0%
Total revenues	9,833.6	9,833.6	0.0	0.0%

TABLE 2-7

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

OPERATING REVENUES

TEST YEAR            2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>Metered Revenues</u>				
Residential	8,060.9	8,060.9	0.0	0.0%
Business	2,858.5	2,858.5	0.0	0.0%
Multiple Family	309.2	309.2	0.0	0.0%
Industrial	79.2	79.2	0.0	0.0%
Public Authority	404.2	404.2	0.0	0.0%
Other	6.7	6.7	0.0	0.0%
Irrigation	0.0	0.0	0.0	0.0%
Reclaimed	232.1	232.1	0.0	0.0%
<hr/>				
Total General Metered	11,950.8	11,950.8	0.0	0.0%
<u>Flat Rate Revenues</u>				
Residential Flat	0.0	0.0	0.0	0.0%
Private Fire Protection	58.8	58.8	0.0	0.0%
Public Fire Protection	3.1	3.1	0.0	0.0%
Other	0.8	0.8	0.0	0.0%
<hr/>				
Total Flat Rate	62.7	62.7	0.0	0.0%
Deferred Revenues	10.9	10.9	0.0	0.0%
Total revenues	12,021.4	12,021.4	0.0	0.0%

## CHAPTER 3: OPERATION AND MAINTENANCE EXPENSES

### A. INTRODUCTION

This chapter presents DRA's analyses and recommendations on Operation and Maintenance (O&M) expenses in the Westlake District of California Water Service Company (CWS). Table 3-1 compared in detail DRA's and CWS' O&M estimates for the Fiscal Year 2007-2008. All DRA's estimates are in Nominal Dollars. A comparison of total expense estimates at present rates for these years is shown in Table 3-A.

Table 3-A: A comparison of total O&M expense estimates at present rates: DRA's and CWS' O&M estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009.

DRA: Fiscal Year 2007-2008	CWS: Fiscal Year 2007-2008	DRA: Fiscal Year 2008-2009	CWS: Fiscal Year 2008-2009	Utility Exceeds DRA Fiscal 2007-2008	DRA Exceeds Utility Fiscal 2008-2009
\$7,514,100	\$7,657,400	\$7,555,000	\$7,698,900	\$143,300 1.9%	\$143,800 1.9%

DRA's analyses of CWS estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009 include the following analyses as listed below—[(1) through (6)]--of CWS recorded historical expense trends (2000-2005) and CWS estimates for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009; using estimates from 2006, 2007 and 2008.

(1) A 5-Year Regression Analysis (2001-2005)

(2) A 3-Year Regression Analysis (2003-2005)

(3) 5-Year Averages (2001-2005)

(4) 3-Year Averages (2003-2005)

(5) Last Year recorded 2005

1 (6) Annualization of the Last 8-months of recorded data (January 2006-August  
2 2006).

3 DRA selected the methodology that best fits CWS recorded historical  
4 expense trends (2000-2005) for its analysis and estimates for the Fiscal Year 2007-  
5 2008 and the Fiscal Year 2008-2009. All DRA estimates are in Nominal Dollars.

6 The inflation factors used by DRA are recommended by the Commission's  
7 DRA Energy Cost of Service Branch (ECOS), which has traditionally handled  
8 inflation issues for the Commissions. These factors were provided in a  
9 Memorandum from ECOS dated Aug. 31, 2006. The Labor escalation factors are  
10 the Consumer Price Index for all Urban Consumers (CPI-U). The Non-Labor  
11 escalation factors are generated from a composite index of 10 Wholesale Price  
12 Indexes for material and supply expenses, and the CPI-U weighted 5% for services  
13 and consumer related items. The 60/40 factor is a composite index derived from  
14 weighting 60 percent Non-Labor and 40 percent for the Compensation per Hour  
15 Index. These indices are derived from the monthly DRI-WEFA publication, "U.S.  
16 Economic Outlook." The above indices and weightings are in conformance with  
17 an agreement reached between the Commission's Water Division and the  
18 California Water Association under the new rate case plan adopted in D.04-06-  
19 018. See Table 3-B below.

## 20 **B. SUMMARY OF RECOMMENDATIONS**

21 DRA conducted independent analyses of CWS work papers and methods of  
22 estimating the Operating and Maintenance expenses for the Fiscal Year 2007-2008  
23 and the Fiscal Year 2008-2009. With the exception of Purchased water and power,  
24 payroll, purchased chemical, postage and conservation; CWS used a 5-year  
25 average of historical expenses adjusted for inflation for the Fiscal Year 2007-2008  
26 and the Fiscal Year 2008-2009 expenses.

1 DRA used alternative projection methods which were then compared with  
2 CWS projections and its historical operations. DRA projections are identified in  
3 Table 3-1 at the end of this Chapter. DRA estimated \$7,514,100 and \$7,555,000  
4 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 expenses respectively. The  
5 methodologies used by DRA are discussed in the following sections. DRA  
6 recommends that the Commission adopts its O & M numbers as reasonable.

**Table 3-B: : Escalation Factors**

Year	Compensation per hour Non-farm rate		Inflation Rates (%)				Composite Rates % 40/60 Split	
	Calendar Annual % Changes	Fiscal Annual % Changes	Calendar		Fiscal		Calendar	Fiscal
			Non- Labor	Labor	Non- Labor	Labor		
1997	3.6	4.5	0.6	--	0.3	--	1.8	2.0
1998	5.3	4.9	0.0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3.0
2001	2.7	2.8	0.0	3.4	0.0	3.1	1.1	1.1
2002	2.8	3.4	0.0	2.8	1.3	2.2	1.1	2.1
2003	4.0	4.3	2.5	1.6	4.2	2.0	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5.0	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4.0	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0.0	1.7	--	--	1.6	--

7

1       **C. DISCUSSION**

2           **1) PURCHASED WATER**

3           CWS estimated \$6,317,200 for the Fiscal Year 2007-2008 and \$6,337,300  
4           for Fiscal Year 2008-2009 respectively. DRA reviewed CWS' estimates and finds  
5           that its estimates are reasonable.

6           DRA accepts CWS estimates of \$6,317,200 and 6,337,300 for the Fiscal  
7           Year 2007-2008 and Fiscal Year 2008-2009 respectively.

8           **2) PRODUCED WATER: GROUND WATER**  
9           **EXTRACTION CHARGES**

10          CWS Groundwater Extraction Charges are zero (\$0.0).

11          **3) REPLENISHMENT ASSESSMENT**

12          CWS has no replenishment assessment fees.

13          **4) PURCHASED POWER**

14          Purchased power is the cost of electricity needed to operate a district,  
15          including the power used in pumping and delivering water. The estimate of  
16          purchased power varies from year to year, and month to month based on  
17          differences in local demand, maintenance schedules, and other operational  
18          considerations such as the quality of water delivered. This calculation also takes  
19          into account the historical ratio of electricity used to the amount of water pumped.

20          CWS estimates of purchased power costs per production unit were based on  
21          usage patterns of each production component, using a model of power cost per  
22          kilowatt-hour at various levels of production. CWS model estimates costs per  
23          kilowatt-hour at current rates (Pacific Gas and Electric Company schedules  
24          effective May 1, 2006) using the historical average of kilowatt-hours per unit of  
25          production and the last three years of recorded data (2003-2005). Because fixed

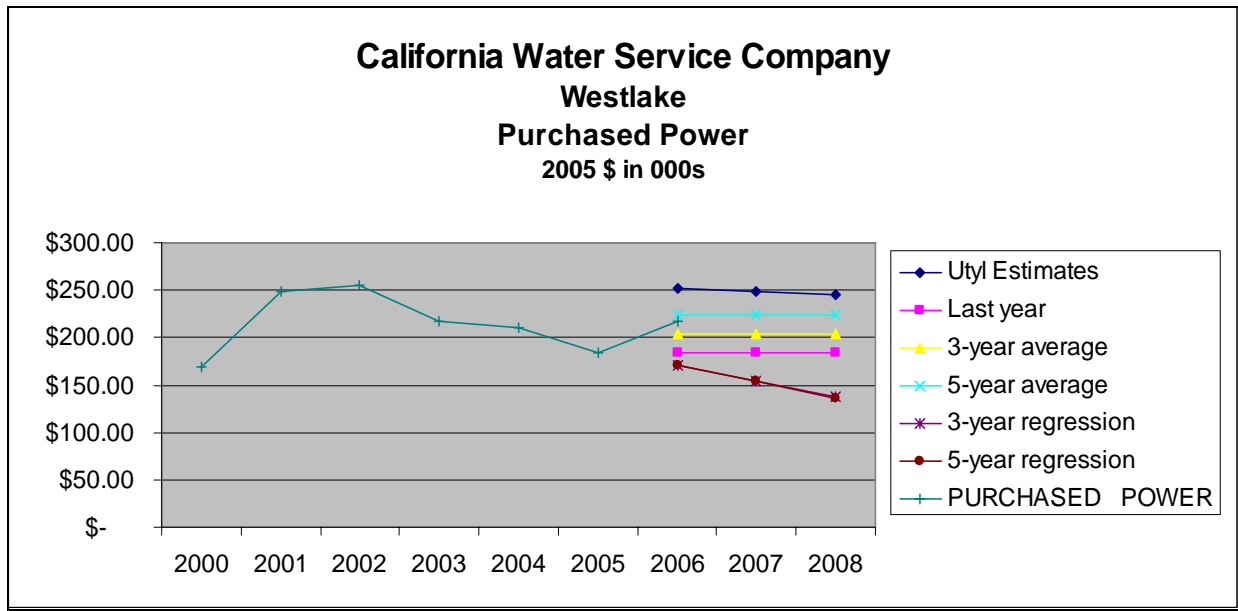
components of the bill are spread over more units of production, the costs per kilowatt-hour generally decline with increasing uses. When the data (kilowatt-hour) used show a specific pattern, CWS uses a forecast methodology to predict estimated power cost from the estimated kilowatt-hour demand. If no specific patterns are observed, CWS uses an average such as a 5-year average.

CWS estimated \$257,700 and \$258,300 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA's computed 2006 annualized amount is \$216,810, which is more in line with DRA's 2007-2008 and 2008-2009 Fiscal Year estimates. DRA used the last year (2005) adjusted for inflation to estimate \$201,800 for Fiscal Year 2007-2008 and \$205,500 for Fiscal Year 2008-2009 respectively. See Table 3-C below.

DRA ask that its estimates of \$201,800 and \$205,500 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-C: Purchased Power

California Water Service Company									
Westlake									
Purchased Power									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							\$ 252.50	\$ 248.76	\$ 244.79
Last year							\$ 184.30	\$ 184.30	\$ 184.30
3-year average							\$ 204.16	\$ 204.16	\$ 204.16
5-year average							\$ 223.41	\$ 223.41	\$ 223.41
3-year regression							\$ 170.54	\$ 153.73	\$ 136.92
5-year regression							\$ 171.12	\$ 153.69	\$ 136.26
PURCHASED POWER	\$ 169.69	\$ 248.58	\$ 256.01	\$ 217.92	\$ 210.26	\$ 184.30	\$ 216.81		



1

## 2           **5) PURCHASED CHEMICAL**

3           CWS Purchased Chemical expenses are a function of annual water  
4           productions and the cost of chemical. CWS estimates are based on the last 3-years  
5           average unit production adjusted for inflation. CWS estimated expenses are \$200  
6           for Fiscal Year 2007-2008 and \$200 for Fiscal Year 2008-2009 respectively.

7           DRA accepts CWS estimates of \$200 for Fiscal Year 2007-2008 and \$200  
8           for Fiscal Year 2008-2009 respectively.

## 9           **6) LABOR**

10          Labor costs included payroll expenses, wages and salaries and overtime for  
11          district personnel. However, labor costs does not include benefits, the benefits  
12          costs are included in the General Office labor accounts. CWS capitalizes labor  
13          expenses for its districts. An historic five-year average of capitalized payroll was  
14          applied to the total payroll to calculate a capitalized payroll percentage of 8.15%.  
15          The capitalized payroll percentage was applied to total forecasted labor expenses  
16          for the base year 2006 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009.  
17          Labor is broken down into O&M and A&G categories based on the 2005 recorded

1 costs for each category. CWS O&M payroll category included Operation Payroll  
2 and Maintenance Payroll. DRA estimates of A&G labor are based on a percentage  
3 allocation of the total (100%) Operating Payroll.

4 DRA's estimates of A&G labor for the Fiscal Year 2007-2008 and Fiscal  
5 Year 2008-2009 are described in Chapter 4.

6 CWS did not ask for additional staff for its Westlake district in Years 2006,  
7 2007 and 2008.

## 8 **7) OPERATION PAYROLL**

9 Operation payroll: CWS used the last recorded year (2005) as its base year  
10 for estimating the labor costs. The payroll expenses are based on the existing  
11 district's payroll levels adjusted for new employees and escalated by CWS labor  
12 inflation factors which are 3.5% for 2006—based on union contracts—and 3.5%  
13 for 2007. There is no union contract for 2008.

14 DRA did not challenge CWS Operation Payroll estimates for the Years  
15 2006, 2007 and 2008 and the Fiscal Year 2007-2008 and Fiscal Year 2008-2009.

16 CWS estimated \$404,300 and \$412,000 for the Fiscal Year 2007-2008 and  
17 Fiscal Year 2008-2009 respectively; the addition of the 1 CSR is reasonable.

18 DRA accepts CWS estimates of \$404,300 and \$412,000 for the Fiscal Year  
19 2007-2008 and Fiscal Year 2008-2009 respectively.

## 20 **8) POSTAGE**

21 Postage costs are a function of postage rates, the number of customers and  
22 the number of annual mailings to each customer. CWS used the last recorded year  
23 (2005) adjusted for inflation. CWS estimated \$27,600 and \$28,100 for Fiscal Year  
24 2007-2008 and Fiscal Year 2008-2009 respectively.

1 DRA accepts CWS estimates of \$27,600 and \$28,100 for the Fiscal Year  
2 2007-2008 and Fiscal Year 2008-2009 respectively.

### 3 **9) TRANSPORTATION**

4 CWS estimated Transportation expenses at \$29,600 and \$30,200 for Fiscal  
5 Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA analyzed CWS'  
6 estimates and finds them in line with historical numbers.

7 DRA accept CWS estimates of, \$29,600 and \$30,200 for Fiscal Year 2007-  
8 2008 and Fiscal Year 2008-2009 respectively.

### 9 **10) UNCOLLECTIBLES**

10 Uncollectible are payments due to CWS that the company has been unable  
11 to collect. The CPUC does recognize that uncollectible are a normal cost of doing  
12 business. CWS test year uncollectible expenses are derived from the last 5-year  
13 average percentage of uncollectible, multiplied by the present and proposed  
14 revenue. CWS estimated Uncollectible expense rates at .06% for Fiscal Years  
15 2007-2008 and 2008-2009 respectively. DRA accept CWS estimates of .06% for  
16 Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

### 17 **11) SOURCE OF SUPPLY**

18 CWS used a 5-year inflation adjusted average in estimating Source of  
19 Supply expenses. CWS estimated Source of Supply expenses for Fiscal Year  
20 2007-2008 and Fiscal Year 2008-2009 are \$200 and \$200 respectively.

21 DRA accept CWS estimates of \$200 for Fiscal Year 2007-2008 and Fiscal  
22 Year 2008-2009 respectively.

### 23 **12) PUMPING EXPENSES**

24 This expense category track costs of equipment, materials and other Misc.  
25 pumping costs and outside services related to pumping. CWS estimated Misc.

1 pumping costs at \$44,400 and \$45,300 for Fiscal Year 2007-2008 and Fiscal Year  
2 2008-2009 respectively. DRA has reviewed CWS' estimate and finds them  
3 reasonable.

4 DRA accept CWS estimates of \$44,400 and \$45,300 for Fiscal Year 2007-  
5 2008 and Fiscal Year 2008-2009 respectively.

### 6 **13) WATER TREATMENT**

7 Water treatment costs tracks material, equipment maintenance, and outside  
8 services relating to the operation of treatment plant. Chemical costs are accounted  
9 for separately. CWS estimated Water Treatment expenses at \$21,700 and \$22,100  
10 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA has  
11 reviewed CWS' estimate and finds them reasonable.

12 DRA accept CWS estimates of \$21,700 and \$22,100 for Fiscal Year 2007-  
13 2008 and Fiscal Year 2008-2009 respectively.

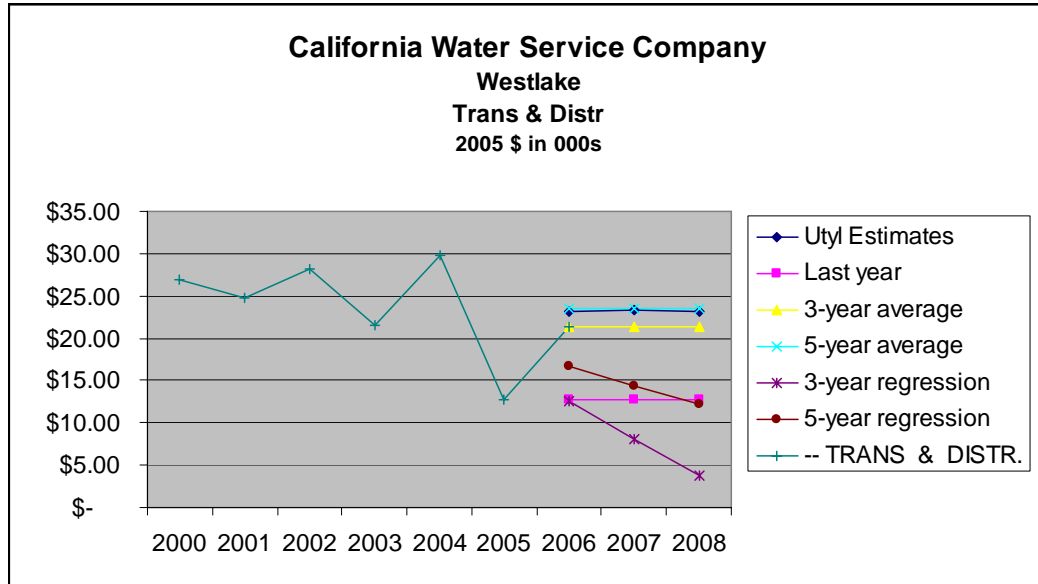
### 14 **14) TRANSMISSION AND DISTRIBUTION**

15 CWS used a 5-year inflation adjusted average in estimating Transmission  
16 and Distribution Misc. expenses for the Fiscal Year 2007-2008 and the Fiscal Year  
17 2008-2009; CWS estimates for the Fiscal Year 2007-2008 and the Fiscal Year  
18 2008-2009 are \$25,200 and \$25,600 respectively. DRA's computed 2006  
19 annualized amount is \$21,300 which is in line with CWS' 2007-2008 and 2008-  
20 2009 Fiscal Year estimates. See Table 3-D below.

21 DRA accept CWS estimates of \$25,200 and \$25,600 for Fiscal Year 2007-2008  
22 and Fiscal Year 2008-2009 respectively.

1 Table 3-D: Transmission and Distribution

California Water Service Company									
Westlake									
Trans & Distr									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 23.19	\$ 23.26	\$ 23.21
Last year							\$ 12.80	\$ 12.80	\$ 12.80
3-year average							\$ 21.38	\$ 21.38	\$ 21.38
5-year average							\$ 23.42	\$ 23.42	\$ 23.42
3-year regression							\$ 12.55	\$ 8.14	\$ 3.73
5-year regression							\$ 16.66	\$ 14.41	\$ 12.15
-- TRANS & DISTR.	\$ 26.88	\$ 24.86	\$ 28.13	\$ 21.63	\$ 29.71	\$ 12.80	\$ 21.30		



4 **15) CUSTOMER ACCOUNTING**

5 CWS estimated Customer Accounting expenses for the Fiscal Year 2007-  
 6 2008 and the Fiscal Year 2008-2009 to be \$54,300 and \$55,300 respectively.

7 DRA accept CWS methodology and CWS estimates of \$54,300 and  
 8 \$55,300 for the Fiscal Year 2007-2008 and the Fiscal Year 2008-2009  
 9 respectively.

1           **16) CONSERVATION**

2           Under the Memorandum of Understanding on Urban Water Conservation,  
3 CWS must implement cost-effective programs when they are funded by the  
4 Commission. Program break-downs for conservation and estimates are based on  
5 the Urban Water Management Plan. In 1991, the California Urban Water  
6 Conservation Council (CUWCC) crafted a Memorandum of Understanding  
7 (MOU) regarding Urban Water Conservation in California. Signatories of the  
8 MOU identified 14 Best Management Practices (BMPs) for water conservation—a  
9 very ambitious program.

10           However, after fifteen years, the implementation of these programs is far from  
11 successful. While CWS has been a member of the CUWCC for 15 years, it has been  
12 reluctant to spend money on conservation programs because these programs decrease its'  
13 earnings. DRA's policy, however, needs three items to be true to include conservation  
14 expenses. The first is a history of conservation expenditures. Second, DRA also needs a  
15 cost-benefit analysis with a result above 1, indicating that the benefits exceed the costs.  
16 And, finally, DRA needs the benefits included in the utility's RO model. CWS does not  
17 have a history of spending all of its authorized funds on conservation programs. In the  
18 Westlake district CWS has spent an average of \$3,410 on conservation programs in the  
19 recorded years 2001-2005. DRA's calculated 2006 annualized amount is \$13,480. CWS  
20 is requesting \$98,000 in 2006 conservation expenses. This is a 2,873.9% over the 5-year  
21 average of \$3,410 and 727% over DRA's computed 2006 annualized (\$13,480) amount.  
22 It should be pointed out that although CWS provided cost benefit analysis on some  
23 BMPs, CWS did not include any conservation benefits in its RO model but is requesting  
24 a 2,873.9% increase in its conservation expenses without providing a single dollar in  
25 benefits to the ratepayers.

26           CWS request to receive 1.5% of its gross revenue for conservation lacks  
27 historical support. There is no basis for these increases over DRA's computed  
28 2006 annualized amount of \$13,480. Therefore, DRA used its computed 2006

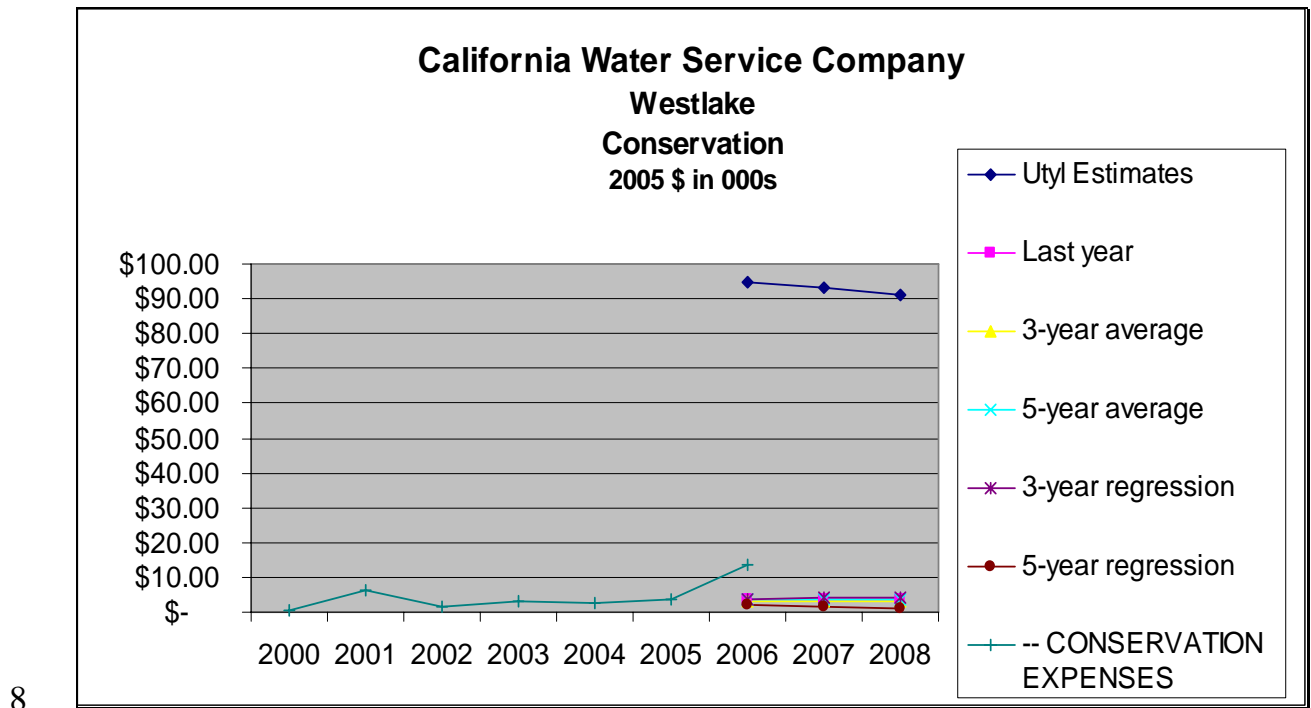
1 annualized amount in calculating the Fiscal Years 2007-2008 and Fiscal Year  
 2 2008-2009 amount of \$14,800 and \$15,000 respectively as shown in Table 3-E.

3 Because of the reasons given above, DRA ask that its calculations of  
 4 \$14,800 and \$15,000 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009  
 5 respectively be adopted.

6 Table 3-E: Conservation Expenses

7

California Water Service Company									
Westlake									
Conservation									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utl Estimates							\$ 94.65	\$ 93.01	\$ 91.29
Last year							\$ 3.60	\$ 3.60	\$ 3.60
3-year average							\$ 3.08	\$ 3.08	\$ 3.08
5-year average							\$ 3.41	\$ 3.41	\$ 3.41
3-year regression							\$ 3.68	\$ 3.98	\$ 4.29
5-year regression							\$ 2.14	\$ 1.71	\$ 1.29
-- CONSERVATION EXPENSES	\$ 0.70	\$ 6.24	\$ 1.60	\$ 2.99	\$ 2.63	\$ 3.60	\$ 13.48		



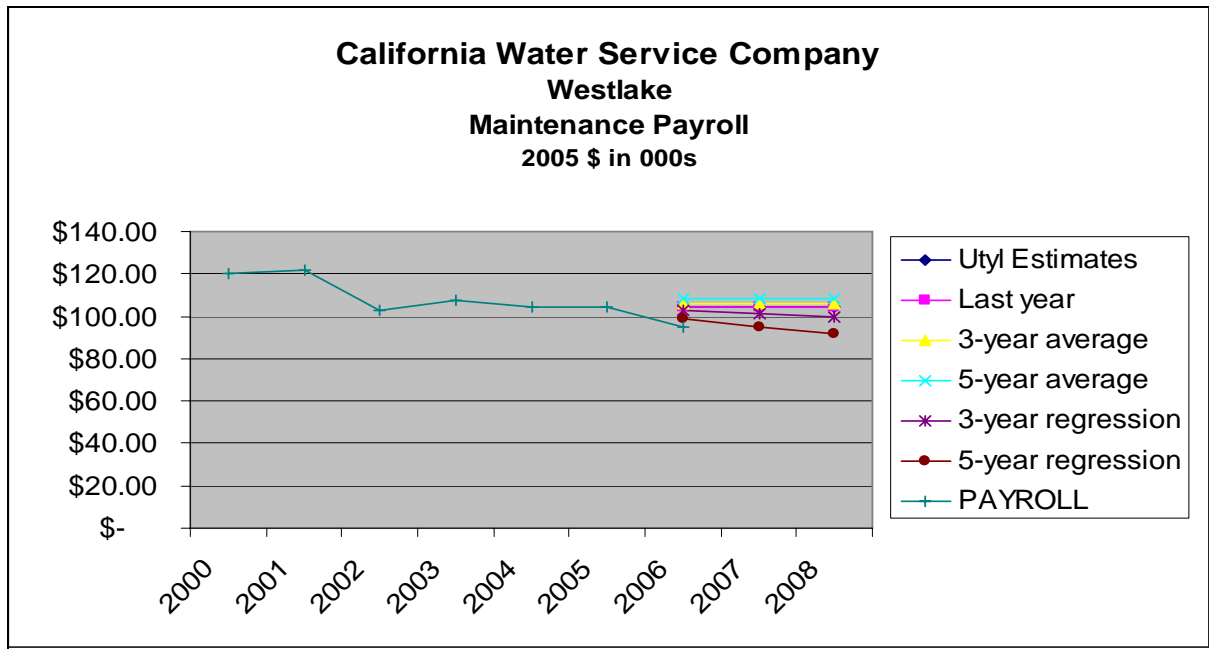
**17) MAINTENANCE: PAYROLL**

CWS estimated \$114,200 and \$116,400 for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA's computed 2006 annualized amount is \$95, 220 which is more in line with DRA's estimates for the Fiscal Years 2007-2008 and 2008-2009. DRA's estimates are \$109,900 and \$110,200 respectively for the Fiscal Year 2007-2008 and Fiscal Year 2008-2009. DRA's estimates are based on a 3-year regression analysis of CWS (2003-2005) recorded data. See Table 3-F below.

DRA ask that its estimates of \$109,900 and \$110,200 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively be adopted.

Table 3-F: Maintenance Payroll

California Water Service Company									
Westlake									
Maintenance Payroll									
2005 \$ in 000s									
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Utyl Estimates							\$104.80	\$104.80	\$104.80
Last year							\$104.80	\$104.80	\$104.80
3-year average							\$105.78	\$105.78	\$105.78
5-year average							\$108.49	\$108.49	\$108.49
3-year regression							\$102.68	\$101.14	\$ 99.59
5-year regression							\$ 98.59	\$ 95.29	\$ 91.99
PAYROLL	\$119.95	\$122.15	\$102.93	\$107.90	\$104.65	\$104.80	\$ 95.22		



1

2

## **18) MAINTENANCE: TRANSPORTATION**

3

4

5

6

CWS estimated Maintenance Transportation expenses at \$41,200 and \$41,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively. DRA accept CWS estimates of \$41,200 and \$41,900 for Fiscal Year 2007-2008 and Fiscal Year 2008-2009 respectively.

7

## **19) MAINTENANCE: STORES**

8

9

10

11

CWS used a 5-year inflation adjusted average in estimating Stores expenses. CWS estimated Stores expenses at \$4,900 for Fiscal Years 2007-2008 and 2008-2009 respectively. DRA accept CWS estimates of \$4,900 for Fiscal Years 2007-2008 and Fiscal Year 2008-2009 respectively.

12

## **20) MAINTENANCE: CONTRACTED MAINTENANCE**

13

14

15

Contracted Maintenance only includes services and supplies provided by outside contractors for the maintenance of the district facilities. This category includes, without limitation, services related to:

16

a. Raising Valve Casings

- 1        b. Repairing Fire Hydrants
- 2        c. Repairing Reservoirs
- 3        d. Painting Water Tanks
- 4        e. Sealing Field Yard Pavement
- 5        f. Painting and Repairing Building Interiors

6        CWS estimated Contracted Maintenance expenses at \$211,100 and  
7        \$215,200—using 5-year inflation adjusted average for Fiscal Year 2007-2008 and  
8        Fiscal Year 2008-2009 respectively.

9        DRA accepts CWS estimates of \$211,100 and \$215,200 for Fiscal Year  
10       2007-2008 and Fiscal Year 2008-2009 respectively.

#### 11       **D. CONCLUSION**

12       Table 3-1 reflects the reasonableness of DRA methodology and analysis of  
13       CWS' O&M expenses.

TABLE 3-1

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

OPERATION & MAINTENANCE EXPENSES

TEST YEAR		2007 - 2008		
Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Operating Revenues	9,833.6	9,833.6		
Uncollectible rate	<u>0.05935%</u>	<u>0.05935%</u>		
Uncollectibles	5.8	5.8	0.0	0.0%
<u>Operation Expenses</u>				
Purchased Water	6,317.2	6,317.2	0.0	0.0%
Replenishment Assessment	0.0	0.0	0.0	0.0%
Groundwater Extraction Charges	0.0	0.0	0.0	0.0%
Purchased Power	201.8	257.7	55.9	27.7%
Purchased Chemicals	0.2	0.2	(0.0)	-4.8%
Payroll	404.3	404.3	0.0	0.0%
Postage	27.6	27.6	0.0	0.0%
Transportation	29.6	29.6	0.0	0.0%
Uncollectibles	5.8	5.8	0.0	0.0%
Source of Supply	0.2	0.2	(0.0)	-4.8%
Pumping	44.4	44.4	0.0	0.0%
Water Treatment	21.7	21.7	0.0	0.0%
Transmission & Distribution	25.2	25.2	0.0	0.0%
Customer Accounting	54.3	54.3	0.0	0.0%
Conservation	14.8	98.0	83.2	562.2%
Total Operation Expenses	7,146.9	7,286.0	139.1	1.9%
<u>Maintenance Expenses</u>				
Payroll	109.9	114.2	4.3	3.9%
Transportation	41.2	41.2	0.0	0.0%
Stores	4.9	4.9	0.0	0.2%
Contracted Maintenance	211.1	211.1	0.0	0.0%
Total Maintenance Expense	367.1	371.3	4.2	1.2%
Total O & M Expenses (incl uncoll)	7,514.1	7,657.4	143.3	1.9%
<u>At proposed rates</u>				
Operating Revenues	12,021.4	12,021.4		
Uncollectible rate	<u>0.05935%</u>	<u>0.05935%</u>		
Uncollectibles	7.1	7.1		
Total O & M Expenses (incl uncoll)	7,515.4	7,658.7	143.3	1.9%

## **CHAPTER 4: ADMINISTRATIVE AND GENERAL EXPENSES**

### **A. INTRODUCTION**

This chapter sets forth DRA's analysis and recommendations for California Water Service Company's A & G expenses including Payroll, Transportation Expenses, Rent, Administrative Charges Transferred, Non-specifics, Amortization of Limited Term Investments, and Dues and Donations Adjustments. All of DRA's estimates are in Nominal Dollars. A comparison of total expense estimates for fiscal years 2007 – 2008, is presented in Table 4 – 1.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA's estimated total for A&G expenses is \$288,600 for Fiscal Year 2007-2008. CWS' estimate for the same time period is \$288,600. DRA's estimated total for A&G expenses is \$294,800 for Fiscal Year 2008 – 2009. CWS' estimate for the same time period is \$294,800. DRA agrees with CWS' estimates.

### **C. DISCUSSION**

DRA conducted independent analysis of CWS' work papers and methods of estimating the Administration & General expenses. DRA accepts CWS' allocation factors for A&G payroll.

Concerning the Extended Service Protection (ESP) program, CWS included administrative charges transferred. DRA adjusted this estimate based upon the fact that CWS used 2005 numbers for residential metered hook-ups. DRA used metered residential hookups for 2006 which reflects more recent data for its estimate. The difference is small, therefore DRA agrees with CWS' estimate.

DRA's analysis of CWS estimates for the Fiscal Year 2007 – 2008 included a five year trending analysis of the company's historical expenses which were compared to the company's requested dollar amounts for fiscal year's 2007 –

1 2008, and 2008 – 2009. This was done to ascertain the reasonableness of the  
2 company's request. All DRA's estimates are in Nominal Dollars. DRA reviewed  
3 and agrees with all other CWS' estimates.

4       The inflation factors used by DRA are recommended by the Commission's  
5 Division of Ratepayers Advocates (DRA) Energy Cost of Service Branch (ECOS),  
6 which has traditionally handled inflation issues for the Commissions. These  
7 factors were provided in a memorandum from ECOS dated August 31, 2006. The  
8 Labor escalation factors are the Consumer Price index for all Urban Consumers  
9 (CPI-U). The Non-Labor escalation factors are generated from a composite index  
10 of 10 Wholesale Price indexes for material and supply expenses, and the CPI-U  
11 weighted 5% for services and consumer related items. The 60/40 factor is a  
12 composite index derived from weighting 60 percent Non-Labor and 40 percent for  
13 the Compensation per Hour Index. These indices are derived from monthly DRI-  
14 WEFA publication, "U.S. Economic Outlook." The above indices and weightings  
15 are in conformance with an agreement reached between the Commission's Water  
16 Division and the California Water Association under the new rate case plan  
17 adopted in D.04-06-018. See Table 4-A.

18

**TABLE 4 - A: ESCALATION FACTORS**

Year	Compensation per hour Non-Farm Rate:		Inflation Rates (%)				Composite Rates % 40/60 Split	
	Calender Annual % Changes:	Fiscal Annual % Changes:	Calender Non- Labor	Labor	Fiscal Non Labor	Labor	Calendar	Fiscal
1997	3.6	4.5	0.6	--	0.3	--	1.8	2
1998	5.3	4.9	0	2.3	0.4	1.9	2.1	2.2
1999	4.4	5.7	0.7	1.5	2.1	1.9	2.2	3.5
2000	6.9	4.8	3.5	2.2	1.8	2.8	4.9	3
2001	2.7	2.8	0	3.4	0	3.1	1.1	1.1
2002	2.8	3.4	0	2.8	1.3	2.2	1.1	2.1
2003	4	4.3	2.5	1.6	4.2	2	3.1	4.2
2004	4.5	4.8	5.8	2.3	5.7	2.5	5.3	5.3
2005	5.1	4.4	5.5	2.7	5.7	3.1	5.3	5.2
2006	3.7	3.8	5.9	3.4	4.4	3.5	5	4.2
2007	3.9	3.9	2.8	3.6	1.8	3.1	3.2	2.6
2008	3.8	3.9	0.7	2.5	0.4	2.2	1.9	1.8
2009	4	4.1	0.1	1.8	0.1	1.8	1.7	1.7
2010	4.1	--	0	1.7	--	--	1.6	--

1

2

3

## **D. CONCLUSION**

4

DRA recommends the Commission adopt DRA's numbers for this district.

5

TABLE 4-1

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

ADMINISTRATIVE & GENERAL EXPENSES

TEST YEAR                      2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
<u>At present rates</u>				
Oper. Rev. less uncoll.	9,827.8	9,827.8		
Local Franchise Rate	1.0271%	1.0271%		
Franchise tax	100.9	100.9	0.0	0.0%
Payroll	90.8	90.8	0.0	0.0%
Transportation Expenses	0.0	0.0	0.0	0.0%
Rent	41.5	41.5	0.0	0.0%
Admin Charges Trsf	(1.1)	(1.1)	0.0	0.0%
Nonspecifics	54.6	54.6	0.0	0.0%
Amort of Limited Term Inv.	3.0	3.0	0.0	0.0%
Dues & Donations Adjustment	(1.0)	(1.0)	0.0	0.0%
Total A & G Expenses	187.7	187.7	0.0	0.0%
(incl. local Fran.)	288.6	288.6	0.0	0.0%
<u>At proposed rates</u>				
Oper. Rev. less uncoll.	12,014.3	12,014.3		
Local Franchise Rate	1.0271%	1.0271%		
Fran. tax	123.4	123.4	0.0	0.0%
Total A & G Expenses	187.7	187.7	0.0	0.0%
(incl. local Fran.)	311.1	311.1	0.0	0.0%

1                   **CHAPTER 5: TAXES OTHER THAN INCOME**

2                   **A. INTRODUCTION**

3                   This chapter sets forth DRA’s analysis and recommendations of Taxes  
4 Other Than Income for CWS for Fiscal Years 2007 – 2008. Taxes Other Than  
5 Income include ad valorem taxes are property taxes paid on net utility plant.  
6 Payroll taxes generally include social security tax, Federal Insurance  
7 Contribution ACT (FICA) tax consisting of Old Age Benefits and Medicare,  
8 Federal Unemployment Insurance (FUI), State Unemployment Insurance (SUI).

9                   DRA’s and CWS’ estimates of Taxes Other Than Income for Fiscal Year  
10 2007 – 2008, is included in Table 5-1 at the end of the chapter.

11                  **B. SUMMARY OF RECOMMENDATIONS**

12                  DRA agrees with the methodology that CWS proposes using to determine  
13 the estimated expenses for fiscal year 2007 – 2008, and 2008 – 2009 for ad  
14 valorem taxes. Additional differences in the taxes or fees are due to differences  
15 between DRA and CWS’ estimates of plant additions. A comparison of DRA’s  
16 and the company’s estimates is shown in Table 5-1.

17                  **C. CONCLUSION**

18                  1) Ad Valorem Taxes - Differences between DRA and CWS are  
19 attributable to the differences in Plant estimates.

20                  DRA recommends the Commission adopt its numbers for this district. See  
21 Table 5-1.

TABLE 5-1  
CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

TAX DEDUCTIONS AND CREDITS

TEST YEAR 2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Ad Valorem taxes	37.5	75.6	38.1	101.6%
Local Franchise (pres rates)	101.0	101.0	0.0	0.0%
Local Franchise (prop rates)	119.6	119.6	0.0	0.0%
Social Security Taxes	49.2	49.2	0.0	0.0%
Business License (pres rates)	0.0	0.0	0.0	0.0%
Business License (prop rates)	0.0	0.0	0.0	0.0%
Taxes other than income (present rates)	187.7	225.8	38.1	20.3%
Taxes other than income (proposed rates)	206.3	244.4	38.1	18.5%
State Tax Depreciation	706.5	1,025.1	318.6	45.1%
Transp. Dep. Adj.	(23.5)	(23.5)	0.0	0.0%
State Tax Deduct(pres rates)	683.0	1,001.6	318.6	46.6%
State Tax Deduct(prop rates)	683.0	1,001.6	318.6	46.6%
Federal Tax Depreciation	431.2	625.7	194.5	45.1%
State Income Tax	(25.9)	(25.9)	0.0	0.0%
Transp. Dep. Adj.	(23.5)	(23.5)	0.0	0.0%
Pre. Stock Div. Credit	0.6	0.6	0.0	0.0%
Am. Jobs Act Deduction	0.0	0.0	0.0	0.0%
Fed. Tax Deduct.(pres rates)	382.4	576.9	194.5	50.8%
Fed. Tax Deduct.(prop rates)	413.0	607.5	194.5	47.1%

1                   **CHAPTER 6: INCOME TAXES**

2           **A. INTRODUCTION**

3           This chapter presents DRA’s analysis of Income Taxes for the Dixon  
4   District of California Water Service Company. Tables 6-1 and 6-2 compare in  
5   detail DRA’s and CWS’ tax deductions and taxes estimates for the Fiscal Year  
6   2007 – 2008.

7           **B. SUMMARY OF RECOMMENDATIONS**

8           DRA agrees with the methods CWS used to calculate Income Tax. DRA’s  
9   lower O&M expenses, General Office prorated expenses, and capitalized interest  
10   calculations account for the difference in the final tax estimates.

11          **C. DISCUSSION**

12          The tax deductions and credits in this proceeding were calculated in  
13   accordance with the normalization requirements of the Economic Recovery Act of  
14   1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility  
15   Act of 1982 (TEFRA) have been incorporated in the tax deduction estimates.  
16   Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been  
17   estimated and included into the general rate case in accordance with the  
18   requirements of Decision 87-09-026 dated September 10, 1987, Decision 87-12-  
19   028 dated December 9, 1987 and Decision 88-01-061 dated January 28, 1988.

20          Some of the provisions of TRA 86 have been incorporated into California  
21   Corporation Franchise Tax (CCFT) law in the California Bank and Corporation  
22   Tax Fairness, Simplification and Conformity Act of 1987 (State Tax Act of 1987).  
23   The provisions have been estimated and integrated into the CCFT calculations for  
24   this general rate case.

1           DRA calculated tax depreciation for state and federal income tax purposes  
2   by applying the ratio of DRA's estimate of net plant to CWS' estimate of net plant  
3   to CWS' tax depreciation estimate. This methodology will be trued up when a  
4   Commission decision is issued in this case.

5           To calculate the interest deduction, DRA used its ratebase and multiplied it  
6   by the weighted cost of debt, whereas CWS reduced the ratebase by working cash  
7   before multiplying by the weighted cost of debt. DRA followed the policy  
8   outlined in D.03-12-040; because Working Cash is a part of ratebase and therefore  
9   should be considered when calculating the deduction for interest on debt during  
10   the calculation of income taxes.

11          Decision 89-11-058 issued on November 22, 1989 requires that for  
12   ratemaking purposes the prior year's CFFT should be used in the calculation of  
13   Fiscal Year 2005-2006 and the escalation Year 2006-2007 Federal Income Tax  
14   (FIT). The tax requirements of that decision have been incorporated in this  
15   general rate case by both DRA and CWS. The prior year's CCFT was used as a  
16   deduction in arriving at the Fiscal Year 2007-2008 and the escalation Year 2008-  
17   2009 estimated FIT.

18          Corporations may deduct dividends paid on special preferred stock issues  
19   or issues made to redeem such preferred stock. The Preferred Stock Dividend  
20   Credit tax deduction is reflected in DRA's calculations.

21

TABLE 6-1

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

TAXES BASED ON INCOME

TEST YEAR 2007 - 2008

(PRESENT RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	9,833.6	9,833.6	0.0	0.0%
Deductions:				
O & M expenses	7,514.1	7,657.4	143.3	1.9%
A & G expenses	187.7	187.7	0.0	0.0%
G. O. Prorated expenses	1,046.8	1,103.4	56.6	5.4%
Taxes not on Income	187.7	225.8	38.1	20.3%
Transportation Deprec Adj	(23.5)	(23.5)	0.0	0.0%
Interest	125.0	407.1	282.1	225.7%
Income before taxes	795.8	275.6	(520.2)	-65.4%
<u>Calif. Corp. Franchise Tax</u>				
State Tax Deductions	(706.5)	(1,025.1)	-318.6	45.1%
Taxable income for CCFT	89.4	(749.4)	(838.8)	-938.7%
CCFT Rate	8.84%	8.84%		
CCFT	7.9	(66.2)	(74.1)	-938.7%
Addl. Tax .06% per D.84-05-036	(0.4)	(0.4)	0.0	0.0%
Adjusted CCFT	7.5	(66.6)	(74.1)	-988.7%
<u>Federal Income Tax</u>				
Tax Depreciation	431.2	625.7	194.5	45.1%
State Corp Franch Tax	(25.9)	(25.9)	0.0	0.0%
Pref Stock Dividend Credit	0.6	0.6	0.0	0.0%
Am. Jobs Act Deduction	0.0	0.0	0.0	0.0%
Taxable income for FIT	389.9	(324.7)	(714.6)	-183.3%
FIT Rate	35.00%	35.00%		
FIT	136.4	(113.7)	(250.1)	-183.4%
Total FIT & CCFT	144.0	(180.3)	(324.3)	-225.2%

TABLE 6-2

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

TAXES BASED ON INCOME

TEST YEAR                      2007 - 2008

(AT CWS PROPOSED RATES)

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Operating revenues	12,021.4	12,021.4	0.0	0.0%
Deductions:				
O & M expenses	7,515.4	7,658.7	143.3	1.9%
A & G expenses	187.7	187.7	0.0	0.0%
G. O. Prorated expenses	1,046.8	1,103.4	56.6	5.4%
Taxes not on Income	206.3	244.4	38.1	18.5%
Transportation Deprec Adj	(23.5)	(23.5)	0.0	0.0%
Interest	125.0	407.1	282.1	225.7%
Income before taxes	2,963.7	2,443.5	(520.2)	-17.6%
<u>Calif. Corp. Franchise Tax</u>				
State Tax Deductions	(706.5)	(1,025.1)	-318.6	45.1%
Taxable income for CCFT	2,257.2	1,418.4	(838.8)	-37.2%
CCFT Rate	8.84%	8.84%		
CCFT	199.5	125.4	(74.1)	-37.2%
Addl. Tax .06% per D.84-05-036	-0.4	-0.4	0.0	0.0%
Adjusted CCFT	199.1	125.0	(74.1)	-37.2%
<u>Federal Income Tax</u>				
Tax Depreciation	431.2	625.7	194.5	45.1%
State Corp Franch Tax	4.7	4.7	0.0	0.0%
Pref Stock Dividend Credit	0.6	0.6	0.0	0.0%
Am. Jobs Act Deduction	0.0	0.0	0.0	0.0%
Taxable income for FIT	2,527.2	1,812.5	(714.6)	-28.3%
FIT Rate	35.00%	35.00%		
FIT	884.5	634.4	(250.1)	-28.3%
Total FIT & CCFT	1,083.6	759.4	(324.3)	-29.9%

## **CHAPTER 7: UTILITY PLANT IN SERVICE**

### **A. INTRODUCTION**

DRA's and CWS' estimates for Plant in Service for the test year 2007 and the escalation year 2008 are shown in Tables 7-1 and 7-2 at the end of this chapter.

DRA reviewed and analyzed CWS' testimony, application, workpapers, capital project details, estimating methods, and responses to various DRA data requests. DRA also conducted a field investigation of most of the proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA's and CWS' estimates of specific and non-specific plant additions are attributed to the items as tabulated on Page 7-2.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA recommends that 1) plant additions for five specific projects in 2006 be adjusted or covered under Advice Letters, 2) plant additions for four specific projects in 2007 be disallowed or deferred to the next general rate case, 3) plant additions for two specific projects in 2008 be deferred to the next general rate case, and 4) plant additions for non-specifics in 2006 through 2008 be adjusted as described in Section C below. Based on these recommendations, DRA's estimates for the 2006, 2007 and 2008 plant additions are \$579,500, \$241,300 and \$206,600 respectively versus CWS' proposed amounts of \$2,954,200, \$7,605,200 and \$530,300 respectively for the same years.

Westlake

Recommended Plant Addition Adjustments

<u>Item No.</u>	<u>Project Number and Description</u>		<u>CWS</u>	<u>DRA</u>
1	13265	Construction support for Harris Reservoir	\$426,200	\$106,000
2	14364	Upgrade Station 3 booster	\$465,000	Advice Letter
3	14370	Upgrade Station 5 booster	\$411,000	Advice Letter
4	14380	Replace Station 4 booster	\$1,134,000	Advice Letter
5	N/A	Small meter replacements	\$120,000	\$85,600
6	14384	Replace Harris reservoir	\$7,211,000	Defer to next GRC
7	14436	Install automatic meter reading system	\$77,800	Disallow
8	13443	Replace vehicle # V201000	\$26,800	Defer to next GRC
9	13444	Replace vehicle # V200024	\$31,200	Defer to next GRC
10	15236	Hydraulic model development	\$100,000	Defer to next GRC
11	15236	Water Supply & Facilities Master Plan	\$200,000	Defer to next GRC
12	N/A	Non specific capital budget for 2006	\$124,100	\$114,000
13	N/A	Non specific capital budget for 2007	\$134,100	\$117,000
14	N/A	Non specific capital budget for 2008	\$144,700	\$121,000

**C. DISCUSSION**

**Project 13265 – Construction support for Harris Reservoir**

CWS proposed \$426,200 in plant addition for this specific project in 2006 without showing a detailed cost breakdown to support the total amount. DRA reviewed the justification provided by CWS and agrees with the company on the need for this specific project. DRA sent Data Request CTL-1 in July 2006 to CWS asking the company to show the detailed cost breakdown and to indicate the progress status of this proposed specific project since it is targeted for completion

1 in 2006. In its response, CWS indicated that the amount of \$426,200 is the total of  
2 (a) \$264,200 for construction inspection services with no dollar spent yet and (b)  
3 \$162,000 for the design of Pump Stations 3 and 5 with \$48,000 already spent.  
4 DRA reviewed the detailed cost breakdown and found the \$264,200 to be  
5 reasonable at about 4 percent of the construction cost but it should be deferred to  
6 the next general rate case as the construction activities for the Harris Reservoir  
7 would not occur until after the 2008 – 2009 period. In the same response, DRA  
8 also found that there was a quote from CWS' consultant for the design of Pump  
9 Stations 3 and 5 at \$98,000. Adding CWS' standard overhead of 8%, the total  
10 estimate for design would be \$106,000. DRA considers this amount to be more  
11 reasonable than the proposed amount since it is supported by a consultant's quote.  
12 Therefore DRA recommends that (a) the \$264,200 for construction inspection  
13 services be deferred to the next general rate case because the money would not be  
14 spent until then, and (b) the \$162,000 for the design of Station 3 and 5 boosters be  
15 adjusted to \$106,000 for plant addition in 2006.

#### 16 **Project 14364 – Upgrade Station 3 boosters**

17 CWS proposed \$465,000 in plant addition for this specific project in 2006  
18 showing a detailed cost breakdown for the total amount. DRA reviewed the  
19 justification provided by CWS and agrees with the company on the need for this  
20 specific project before the Harris Reservoir can be taken out of service for  
21 replacement. DRA sent Data Request CTL-1 in July 2006 to CWS asking the  
22 company to indicate the progress status of this proposed specific project since it is  
23 targeted for completion in 2006. In its response in August 2006, CWS indicated  
24 that since this project was still under design, no firm construction bids have been  
25 secured yet. In October 2006, CWS advised DRA that the project would be  
26 completed in 2007 instead of 2006. Also as the design was near its completion, the  
27 cost estimate of the project has been updated to include a necessary surge tank  
28 after further analysis for a revised total estimate of \$672,000. DRA reviewed the

1 updated estimate and found that CWS had used an excessive contingency of 15%  
2 and did not explain how the labor for an electrical panel upgrade was estimated at  
3 \$60,000. DRA believed that a standard contingency of 10% is more reasonable  
4 and the labor for the electrical panel upgrade should be adjusted to \$30,000 to  
5 match the panel board cost of \$30,000. DRA calculated the total estimate to be  
6 \$610,000 based on the above adjustments but still considered the final cost of this  
7 project uncertain in the absence of a firm contractor's bid at this time. Therefore  
8 DRA recommends that CWS file an advice letter in 2007 capped at \$610,000 to  
9 recover the costs incurred after this project is completed and put into service.

#### 10 **Project 14370 – Upgrade Station 5 boosters**

11 CWS proposed \$411,000 in plant addition for this specific project in 2006  
12 showing a detailed cost breakdown for the total amount. DRA reviewed the  
13 justification provided by CWS and agrees with the company on the need for this  
14 specific project before the Harris Reservoir can be taken out of service for  
15 replacement. DRA sent Data Request CTL-1 in July 2006 to CWS asking the  
16 company to indicate the progress status of this proposed specific project since it is  
17 targeted for completion in 2006. In its response in August 2006, CWS indicated  
18 that since this project was still under design, no firm construction bids have been  
19 secured yet. In October 2006, CWS advised DRA that the project would be  
20 completed in 2007 instead of 2006. Also as the design was near its completion, the  
21 cost estimate of the project has been updated for a revised total of \$540,000. DRA  
22 reviewed the updated estimate and found that CWS had used an excessive  
23 contingency of 15% and did not explain how the labor for an electrical panel  
24 upgrade was estimated at \$65,000. DRA believed that a standard contingency of  
25 10% is more reasonable and the labor for the electrical panel upgrade should be  
26 adjusted to \$33,000 to match the panel board cost of \$33,000. DRA calculated the  
27 total estimate to be \$480,000 based on the above adjustments but still considered  
28 the final cost of this project uncertain in the absence of a firm contractor's bid at

1 this time. Therefore DRA recommends that CWS file an advice letter in 2007  
2 capped at \$480,000 to recover the costs incurred after this project is completed and  
3 put into service.

#### 4 **Project 14380 – Replace Station 4 boosters**

5 CWS proposed \$1,134,000 in plant addition for this specific project in 2006  
6 showing a detailed cost breakdown for the total amount. DRA reviewed the  
7 justification provided by CWS and agrees with the company on the need for this  
8 specific project before the Harris Reservoir can be taken out of service for  
9 replacement. DRA sent Data Request CTL-1 in July 2006 to CWS asking the  
10 company to indicate the progress status of this proposed specific project since it is  
11 targeted for completion in 2006. In its response in August 2006, CWS indicated  
12 that the company was going to get construction bids for this project soon. In  
13 October 2006, CWS advised DRA that the project would be completed in 2007  
14 instead of 2006 and there was a significant difference between the original  
15 engineering estimate of \$1,134,000 and the low contractor bid received which was  
16 \$1,794,796. With other necessary costs such as CWS labor of \$47,000, overhead  
17 of \$147,000 and a standard 10% construction contingency added to the low bid,  
18 the revised total estimate for this project now stands at \$2,190,000 which is almost  
19 twice as much as the proposed amount. DRA reviewed the cost breakdown in the  
20 low bid and found the following major differences – (a) Site work was estimated  
21 at \$20,000 but the low bid was \$104,500, (b) Pump station building was estimated  
22 at \$140,000 but the low bid was \$229,900, (c) Pump station mechanical work was  
23 estimated at \$200,000 but the low bid was \$370,000, (d) Pipeline construction was  
24 estimated at \$255,000 but the low bid was \$560,000 and (e) Electrical work was  
25 estimated at \$135,000 but the low bid was \$455,000. CWS indicated that it has  
26 conducted a value engineering meeting with the low bid contractor to explore  
27 ways to reduce costs and expects a revised cost back from the low bid contractor  
28 by late 2006. Due to the potential to reduce some costs for this project, DRA

1 considers the final cost of this project uncertain at this time. Therefore, DRA  
2 recommends that CWS file a special advice letter, to be approved by a resolution,  
3 to recover the actual costs incurred after this project is completed and put into  
4 service.

#### 5 **Small meter replacements (Routine)**

6 CWS proposed \$120,000 in plant addition for this specific project in 2006  
7 without showing a detailed cost breakdown even though DRA's master data  
8 request called for one when a project's cost exceeds \$100,000. When DRA asked  
9 CWS to explain why 1,200 small meters need to be replaced in 2006 in Data  
10 Request CTL-1 in July 2006, CWS did not address the question asked by DRA. In  
11 its review of the similar small meter replacement program for the years 2007 and  
12 2008, DRA found that only 440 small meters would be replaced at a cost of  
13 \$85,600 in each of these years. In the absence of an explanation by CWS, DRA  
14 believes that it is more reasonable to allow the same number of small meter  
15 replacement in 2006 as in 2007 and 2008. Therefore DRA recommends that the  
16 proposed amount of \$120,000 be adjusted to \$85,600 for plant addition in 2006.

#### 17 **Project 14384 – Replace Harris Reservoir**

18 CWS proposed \$7,211,000 in plant addition for this specific project in 2007  
19 showing a detailed cost breakdown to support the total amount. DRA reviewed the  
20 justification provided by CWS which contained a detailed study dated February  
21 2006 done by an expert consultant who has extensive experience in water facility  
22 design and construction. The consultant considered seven options or alternatives  
23 on how to rehabilitate or replace the reservoir and recommended Alternative 3  
24 which called for a prestressed concrete reservoir within the walls of the existing  
25 reservoir by lowering the reservoir bottom and raising the roof to maintain the  
26 same capacity at 4.0 Million Gallons. DRA agreed with the recommendation since  
27 this alternative is the least costly, involves lower volumes of demolition and

1 excavation (thus with minimal impact on the community), and has increased  
2 resistance to settlement in the future. In August 2006, DRA also conducted a  
3 thorough inspection of the existing condition of the reservoir and agreed with the  
4 company on the need for this major specific project to eliminate the structural  
5 distress caused by extensive cracking, to achieve geological stability for the long  
6 term, and to relieve CWS of the potential liability risk in case the existing  
7 reservoir ruptures to threaten lives and properties nearby. DRA sent Data Request  
8 CTL-1 in July 2006 to CWS asking the company to indicate the progress status of  
9 this major specific project. In its response, CWS indicated that the design was  
10 about 75% complete and the company planned to solicit bids from several  
11 contractors through the competitive process in late 2006. In the review of the  
12 detailed cost breakdown, DRA found that the budget contained a 15% percent  
13 contingency at \$768,000 and a 15% contractor overhead and profit at \$850,000  
14 which makes the final cost of this project uncertain in the absence of a firm  
15 contractor's bid at this time. In October 2006, CWS advised DRA that this project  
16 would not be completed in this general rate case. Since Stations 3, 4 and 5 booster  
17 upgrades would be completed in 2007 to supply purchased water directly to the  
18 customers, the Harris reservoir can be taken out of service at that time. However,  
19 DRA believes that CWS should make interim arrangements to alleviate the safety  
20 concerns mentioned above although DRA accepts CWS' request that this specific  
21 project be deferred to the next general rate case.

## 22 **Project 14436 – Install automatic meter reading system**

23 CWS proposed \$77,800 in plant addition for this specific project in 2007  
24 without any justification or detailed cost breakdown. DRA sent Data Request  
25 CTL-1 in July 2006 to CWS asking the company to explain why they need to  
26 install an automatic meter reading system and to show a detailed cost breakdown  
27 to support the proposed amount. In its response to the DRA data request dated  
28 August 14, 2006, CWS indicated that this project has been cancelled. Therefore

1 ORA recommends that this specific project be disallowed in 2007 in the amount of  
2 \$77,800.

3 **Projects 13443/13444 – Replace two vehicles**

4 CWS proposed \$26,800 and \$31,200 in plant addition for these two specific  
5 projects in 2007, based on the fact that the two vehicles would be six years old and  
6 would have been driven for 109,000 miles. DRA water branch has established a  
7 policy dated July 2005 of allowing vehicles to be replaced when the age of the  
8 vehicle is eight years old or the miles driven has reached 150,000 miles,  
9 whichever occurs first. The age and mileage of these two vehicles are well below  
10 the eight years and 150,000 miles limitations. Therefore DRA recommends that  
11 these two specific projects be deferred to the next general rate case in the total  
12 amount of \$58,000.

13 **Project 15236 – Hydraulic Model & Facility Master Plan**

14 CWS proposed \$100,000 and \$200,000 in plant addition for these two  
15 specific projects in 2008. In the justification for the projects, CWS cited changing  
16 water supply and quality conditions as the reason for the need of these projects.  
17 However, DRA found that there is no apparent supply or quality problem since  
18 this district is not under any significant growth and the entire supply is good  
19 quality treated surface water purchased from a nearby municipal water district.  
20 More importantly, CWS has not done a cost benefit analysis to show how the  
21 hydraulic model and the water supply and facility master plan would directly  
22 benefit the ratepayers. Therefore DRA feels that there is no urgency for CWS to  
23 pursue these two specific projects in 2008 and recommends that they be deferred  
24 to the next general rate case in the total amount of \$300,000 when CWS has an  
25 opportunity to demonstrate that these projects have direct benefits to the  
26 ratepayers in this district and that the benefits outweigh the costs.

1     **Non-specific Capital Budgets, 2006 to 2008**

2             CWS proposed \$124,100, \$134,100 and \$144,700 respectively in plant  
3 additions for non-specifics in the three years from 2006 to 2008. DRA reviewed  
4 CWS' methodology and found that CWS has used a rather complex four step  
5 trending method to come up with their estimates, using recorded data for inflation  
6 and company wide growth factors. In its response to DRA data request, CWS  
7 submitted actual expenditures for non-specifics in the last ten years. DRA  
8 reviewed the information and found that the actual expenditure was higher than  
9 the budgeted amount in some years but lower than the budgeted amount in the  
10 other years. By nature, non-specifics are work to be done based on unforeseen  
11 conditions or emergencies and as such, they are very difficult to predict accurately  
12 in advance. DRA believed that it would be more reasonable to use the average of  
13 the actual expenditures in those past ten years for 2006, adjusted for inflation for  
14 2007 and 2008 (using the latest factors published by DRA). Based on this  
15 approach, DRA recommends that the allowable non-specific capital budgets for  
16 2006 to 2008 be \$114,000, \$117,000 and \$121,000 respectively.

17     **D. CONCLUSION**

18             DRA's recommendations have been incorporated in the calculations for  
19 DRA's recommended Rate Base as shown in Table 9-1 and Table 9-2.

TABLE 7-1

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

PLANT IN SERVICE

TEST YEAR                      2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Plant in Service - BOY	21,693.2	24,111.6	2,418.4	11.1%
Additions				
Gross Additions	364.6	7,728.5	7,363.9	2019.7%
Capitalized Interest	4.3	139.8	135.5	3145.5%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	<u>(66.7)</u>	<u>(66.7)</u>	<u>0.0</u>	<u>0.0%</u>
Net Additions	302.2	7,801.6	7,499.4	2481.5%
Plant in Service - EOY	21,995.4	31,913.2	9,917.8	45.1%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	21,995.4	31,913.2	9,917.8	45.1%

TABLE 7-2				
CALIFORNIA WATER SERVICE COMPANY				
WESTLAKE DISTRICT				
PLANT IN SERVICE				
ESCALATION YEAR		2008 - 2009		
Item	DRA	CWS	CWS exceeds DRA Amount	%
(Thousands of \$)				
Plant in Service - BOY	21,995.4	31,913.2	9,917.8	45.1%
Additions				
Gross Additions	329.9	653.6	323.7	98.1%
Capitalized Interest	3.7	9.6	5.9	162.3%
Cap. Int. Plant Equiv CWIP	0.0	0.0	0.0	0.0%
Retirements	(22.6)	(22.6)	0.0	0.0%
Net Additions	311.0	640.6	329.6	106.0%
Plant in Service - EOY	22,306.4	32,553.8	10,247.4	45.9%
Weighting Factor	100%	100%		
Wtd. Avg. Plant in Service	22,306.4	32,553.8	10,247.4	45.9%

## **CHAPTER 8: DEPRECIATION RESERVE AND DEPRECIATION EXPENSE**

### **A. INTRODUCTION**

This Chapter sets forth DRA's analyses and recommendations regarding depreciation reserve and expense for Westlake District. The tables at the end of the chapter provide DRA's and CWS estimates for Depreciation Reserve and Expense for Test Year 2007-2008 and Escalation Year 2008-2009.

### **B. SUMMARY OF RECOMMENDATIONS**

DRA agrees with the methods used to calculate depreciation reserve and depreciation expense for fiscal year 2007-2008 and Escalation Year 2008-2009. Differences between DRA and CWS are due to different plant additions.

### **C. DISCUSSION**

As part of its review, DRA compared the values reported in the GRC application with CWS annual reports to track beginning of year depreciation reserves. CWS used the composite rate of 2.52% for depreciation accrual<sup>1</sup> based on a straight-line remaining life curve using balances for this case consistent with Standard Practice U-4. The differences between CWS' and DRA's estimates are related to the differences in plant additions.

### **D. CONCLUSION**

DRA reviews and accepts the CWS methodology.

---

<sup>1</sup> CWS Workpapers, WP9C1.

TABLE 8-1

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

DEPRECIATION RESERVE & EXPENSE

TEST YEAR            2007 - 2008

Item	DRA	CWS	CWS exceeds DRA Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	8,292.5	8,292.5	0.0	0.0%
Accruals				
Transportation Equipment	18.3	18.3	0.0	0.0%
Contributed Plant	126.7	126.7	0.0	0.0%
Other Plant in Service	402.9	558.3	155.4	38.6%
Total Accruals	547.8	703.2	155.4	28.4%
Retirements	(60.2)	(60.2)	0.0	0.0%
Depreciation Reserve - EOY	8,780.1	8,935.5	155.4	1.8%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	8,780.1	8,935.5	155.4	1.8%

TABLE 8-2

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

DEPRECIATION RESERVE & EXPENSE

ESCALATION YEAR            2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Depreciation Reserve - BOY	8,777.9	8,838.8	60.9	0.7%
Accruals				
Transportation Equipment	20.0	20.0	0.0	0.0%
Contributed Plant	128.2	128.2	0.0	0.0%
Other Plant in Service	407.2	751.6	344.4	84.6%
Total Accruals	555.4	899.8	344.4	62.0%
Retirements	(18.8)	(18.8)	0.0	0.0%
Depreciation Reserve - EOY	9,314.5	9,719.8	405.3	4.4%
Weighting Factor	100%	100%		
Wtd. Avg. Depr. Reserve	9,314.5	9,719.8	405.3	4.4%

## CHAPTER 9: RATEBASE

### A. INTRODUCTION

This Chapter sets forth DRA's analysis and recommendations of rate base for the Westlake District. Tables 9-1 and 9-2 at the end of this report compare DRA's and CWS' estimates. Differences are due to different estimates of plant additions, materials and supplies, and working cash allowances.

### B. SUMMARY OF RECOMMENDATIONS

DRA recommends a weighted average rate base for Westlake District as follows in Table 9-A below:

**Table 9-A**  
**California Water Service Company**  
**Westlake District**  
**Test Year 2007-2008**  
**Weighted Average Rate Base Summary**

	DRA  Wtg. Avg.  Rate Base  (\$000)	CWS  Wtg. Avg.  Rate Base  (\$000)	CWS  Exceeds DRA Amount By  (\$000)	CWS  Exceeds DRA Amount By  %
2007-2008	\$4,531.3	\$14,501.3	\$9,962.2	219.5%
2008-2009	\$4,517.3	\$14,575.7	\$10,046.0	221.8%

Tables 9-1 and 9-2 at the end of this report provide a summary of DRA's weighted average rate base and depreciated rate base estimated for Westlake District.

1       **C. DISCUSSION**

2           **1) Materials and Supplies**

3           CWS estimated expenses for materials and supplies for test year 2007-2008  
4       based on the three-year average for 2003 to 2005 which results in an allowance of  
5       \$76,900 for materials and supplies. DRA used the five-year average from 2001-  
6       2005 to develop the estimate of \$62,800.

7           **2) Working Cash Allowance**

8           In the previous GRC, CWS had not updated its lead/lag studies since the  
9       late 1980s. CWS managers had indicated to DRA that a project was underway to  
10      update the lead/lag study. CWS provided the new lead/lag study with the  
11      workpapers during this GRC application. DRA reviewed the new lead/lag study  
12      and noted that it is comprehensive and well-documented.

13          CWS produced a lead/lag calculation of working cash that indicates a  
14      positive working cash allowance of \$339,300 for test year 2007-2008 and  
15      \$366,100 for escalation year 2008-2009. DRA disagreed with some of the lag  
16      days included in the CWS calculation and recommended some adjustments to  
17      CWS' lead/lag calculation and the estimated working cash allowance. DRA  
18      recommends positive working cash allowance of \$145,700 for test year 2007-2008  
19      and \$163,900 for escalation year 2008-2009.

20          DRA estimates different lag days than CWS for several of the CWS  
21      expenses such as ad valorem taxes, state corporation franchise tax, and federal  
22      income tax. DRA calculated the average lag days for ad valorem taxes at 70.5  
23      days instead of the 41 days estimated by CWS. DRA estimated the lag days for  
24      State corporation franchise tax and federal income tax to be 93 days. In D.03-09-  
25      021 which determined General Office expenditures, CWS and DRA agreed that 93

1 lag days fairly represents the timing and amount of taxes paid<sup>2</sup>. DRA  
2 recommends using 93 days rather than the 37.0 days and 40.9 days, respectively,  
3 estimated by CWS.

4 **3) Net to Gross Multiplier**

5 The net-to-gross multiplier represents the change in gross revenue required  
6 to produce a unit change in net revenue. DRA recommends that the net-to-gross  
7 multipliers shown in the table below be applied in developing the revenue  
8 requirement change calculation for the test year 2007-2008 CWS and DRA used  
9 the same methodology to calculate the net-to-gross multiplier.

10 **Table 9-B**  
11 **California Water Service Company**  
12 **Westlake District**  
13 **Net to Gross Multipliers**  
14

<b>DRA</b> <b>Net to Gross Multiplier</b>	<b>CWS</b> <b>Net to Gross Multiplier</b>
1.80017	1.80017

15  
<sup>2</sup> CPUC Decision 03-09-021, dated September 4, 2003, paragraph 4.03

TABLE 9-1

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

TEST YEAR          2007 - 2008

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Wtd.Avg. Plant in Serv.	21,995.4	31,913.2	9,917.8	45.1%
Materials & Supplies	62.8	76.9	14.1	22.5%
Working Cash - Lead-Lag	145.7	339.3	193.6	132.9%
Amt withheld from Employees	(2.1)	(2.1)	0.0	0.0%
Wtd. Avg. Depr. Res.	(8,780.1)	(8,935.5)	(155.4)	1.8%
Advances	3,773.7	3,773.7	0.0	0.0%
Contributions	3,881.2	3,881.2	0.0	0.0%
Reserved Amort.Intangibles	6.5	6.5	0.0	0.0%
Deferred Taxes	2,585.9	2,585.9	0.0	0.0%
Unamortized ITC	41.3	41.3	0.0	0.0%
General Office Alloc	601.6	601.6	0.0	0.0%
Taxes on - Advances	697.8	697.8	0.0	0.0%
Taxes on - CIAC	98.7	98.7	0.0	0.0%
Average Rate Base	4,531.3	14,501.3	9,970.0	220.0%
Interest Calculation:				
Avg Rate Base less work cash	4,324.9	14,087.2	9,762.3	225.7%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0%
Interest Expense	125.0	407.1	282.1	225.7%
less Cap. Interest	(136.6)	(139.8)	(3.2)	2.3%
Net Interest Expense	(11.7)	267.3	279.0	-2381.4%

TABLE 9-2

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

WEIGHTED AVERAGE DEPRECIATED RATE BASE

ESCALATION YEAR                      2008 - 2009

Item	DRA	CWS	CWS exceeds DRA	
			Amount	%
(Thousands of \$)				
Wtd.Avg. Plant in Service	22,306.4	32,553.8	10,247.4	45.9%
Material & Supplies	62.8	76.9	14.1	22.5%
Working Cash - Lead-Lag	163.9	366.1	202.2	123.3%
Amt withheld from Employees	(2.1)	(2.1)	0.0	0.0%
Wtd. Avg. Depr. Reserve	(9,314.5)	(9,719.8)	(405.3)	4.4%
Advances	3,553.4	3,553.4	0.0	0.0%
Contributions	3,816.8	3,816.8	0.0	0.0%
Reserved Amort.Intangibles	9.5	9.5	0.0	0.0%
Deferred Taxes	2,655.3	2,655.3	0.0	0.0%
Unamortized ITC	39.4	39.4	0.0	0.0%
General Office Alloc	621.2	621.2	0.0	0.0%
Taxes on - Advances	662.1	662.1	0.0	0.0%
Taxes on - CIAC	91.8	91.8	0.0	0.0%
Average Rate Base	4,517.3	14,575.7	10,058.4	222.7%
Interest Calculation:				
Avg Rate Base less work cash	4,292.7	14,134.8	9,842.1	229.3%
x Weighted Cost of Debt	2.89%	2.89%	0.00%	0.0%
Interest Expense	124.1	408.5	284.4	229.3%
less Cap. Interest	(3.7)	9.6	13.3	-362.3%
Net Interest Expense	120.4	418.1	297.7	247.3%

TABLE 9-3

CALIFORNIA WATER SERVICE COMPANY  
WESTLAKE DISTRICT

NET-TO-GROSS MULTIPLIER

TEST YEAR 2007 - 2008  
AND ESCALATION YEAR 2008 - 2009

Item	DRA	CWS
1) Uncollectibles %	0.05935%	0.05935%
2) 1-Uncoll (100%-line 1)	99.94065%	99.94065%
3) Franchise tax rate	1.02710%	1.02710%
4) Local Franchise (line 3*line 2)	1.02649%	1.02649%
5) Business license rate	0.00000%	0.00000%
6) Business license (line 5*line 2)	0.00000%	0.00000%
7) Subtotal (line 1+line 4+line 6)	1.08584%	1.08584%
8) 1-Subtotal (100%-line7)	98.91416%	98.91416%
9) CCFT (line 8 * 8.84%)	8.74401%	8.74401%
10) FIT (line 8 * 35%)	34.61996%	34.61996%
11) Total taxes paid (ln 7+ln 9+ln 10)	44.44981%	44.44981%
12) Net after taxes (1-line 11)	55.55019%	55.55019%

Net-to-Gross Multiplier (1/line 12) =	1.80017 (DRA)
Net-to-Gross Multiplier (1/line 12) =	1.80017 (Utility)

## CHAPTER 10: CUSTOMER SERVICE

### A. INTRODUCTION

DRA has reviewed CWS filings and responses to DRA data requests.

### B. SUMMARY OF RECOMMENDATIONS

DRA finds the numbers of service complaints low and customer service in this district satisfactory.

### C. DISCUSSION

Table 10A presents a summary of CWS customer service complaints received from 2001 through 2006. It also contains the number of complaints as a percentage of total number of customers in the Westlake district.

Table 10A  
Westlake District Customer Service Complaints

<u>Type</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Taste and Odor	0	2	6	0	1	2
Color	0	0	0	0	0	0
Turbidity	1	0	3	0	0	0
Worms/Other Objects	0	0	0	0	0	0
Pressure	0	1	41	0	0	11
Illness-Waterborne	0	0	0	0	0	0
Air	0	0	0	0	0	0
Leaks	0	37	0	0	0	14
Other	37	0	0	0	0	9
<b>Total</b>	38	40	50	0	1	36
No. of Customers	6,924	6,939	6,956	6,995	7,026	7,064
Total as % of Customers	0.55%	0.58%	0.72%	0.00%	0.01%	0.51%

CWS records indicate that the numbers of service complaints are low relative to the number of customers in the district.

1        **D. CONCLUSION**

2            DRA recommends that the Commission finds CWS customer service to be  
3    satisfactory.

1 **CHAPTER 11: RATE DESIGN**

2 **A. INTRODUCTION**

3 This Chapter sets forth DRA’s analysis and recommendations on rate  
4 design for CWS’ rate increase application for its Westlake District. The present  
5 rates for CWS in their application became effective on July 22, 2005. The  
6 proposed rates are those found in CWS’ workpapers.

7 CWS currently provides water service in its Westlake District under the  
8 following schedules:

WK-1 General Metered Service

WK-6 Reclaimed Metered Service

WK-4 Service to Privately Owned Fire Protection Systems

9

10 **B. SUMMARY OF RECOMMENDATIONS**

11 CWS proposes to design rates for General Metered Service to recover 50  
12 percent of the fixed costs through the service charge and the remainder through  
13 increasing quantity rates. The method for General Metered Service meets the  
14 requirements set forth in Decision D.86-05-064. CWS proposes to use the Service  
15 Charge ratios from CWS’ 1991 general rate case filings. DRA does not object to  
16 these ratios. However, DRA’s proposed rates differ from CWS’ because of  
17 different recommended revenue requirements.

18 CWS’ other rate change request involves implementation of a tiered rate  
19 structure (increasing block rates) along with a Water Revenue Adjustment  
20 Mechanism (WRAM) and Full Cost Balancing Accounts (FCBA). DRA prepared  
21 its analysis of rate design with the understanding that CWS’ current GRC would  
22 be divided into two phases with the second phase addressing CWS’ requests for  
23 increasing block rates, WRAM and FCBA. CWS subsequently submitted a

1 compliance filing A.06-10-026, requesting the Commission to address these  
2 issues. CWS submitted its compliance filing on October 26, 2006. Consequently,  
3 in this report, DRA addresses rate design from CWS' approved rate design and  
4 defers addressing increasing block rates, WRAM and FCBA to the compliance  
5 filing. DRA recommends those issues be deferred to the compliance filing A.06-  
6 10-026. Thus, in DRA's analysis of CWS' proposal, DRA continues to assume  
7 the absence of WRAM and FCBA and a rate design that recovers 50 percent of the  
8 fixed costs through the service charge and the remainder through a single quantity  
9 rate.

#### 10 **C. DISCUSSION**

11 Concerning Privately Owned Fire Protection Service, CWS proposes to  
12 continue charging for Privately Owned Fire Protection Service according to the  
13 size of the connection. DRA finds this approach reasonable because the proposed  
14 rates are consistent with rates approved for other CWS' districts. DRA's proposed  
15 rates will differ from CWS' because DRA recommends a different revenue  
16 requirement.

#### 17 **D. CONCLUSION**

18 As the vast majority of CWS' proposed rate design will be addressed in the  
19 compliance filing, DRA concludes that for this general rate case, it would be  
20 prudent for the Commission to adopt the CWS rate design from its last GRC.  
21 Notwithstanding the deferral of WRAM and FCBA to the compliance filing, the  
22 adopted rates will differ from CWS' because DRA recommends a different  
23 revenue requirement. DRA recommends the Commission adopt rates for CWS  
24 based on DRA's revenue requirement.

1                                   **CHAPTER 12: SPECIAL REQUESTS**

2                   **A. INTRODUCTION**

3                   This chapter presents DRA’s analysis and recommendations on the special  
4 request made by CWS for the Westlake District.

5                   **B. SUMMARY OF RECOMMENDATIONS**

6                               (a) CWS requests a finding from the Commission that the district  
7 provides water service that meets or exceeds state and federal drinking water  
8 standards and General Order 103 (Exhibit F, page 2).

9                   CWS presented the following summary for the water quality situation in  
10 this District:

11                   The Westlake District is supplied by treated surface water  
12 purchased from Calleguas Municipal Water District (Calleguas). No  
13 additional treatment is provided by Cal Water. All of the water  
14 supplied by Calleguas comes from the Metropolitan Water District  
15 of Southern California’s (MWD) Joseph Jensen Treatment Plant  
16 located in Granada Hills, CA. The Jensen plant treats water from the  
17 State Water Project using coagulation, flocculation, sedimentation,  
18 filtration, and disinfection with ozone and then chlorine. Ammonia is  
19 added to the effluent from the treatment plant to supply a  
20 chloraminated disinfectant residual within the distribution system.  
21 MWD is in the process of adding fluoridation treatment to the Jensen  
22 treatment plant. The fluoridation treatment is scheduled to ready for  
23 use by mid-2007. Calleguas stores surplus supplies of the water  
24 imported water from MWD in Lake Bard, a treated water reservoir  
25 located in Thousand Oaks, CA. Calleguas re-treats the water stored  
26 in Lake Bard at an ozone treatment plant prior to distribution.

27                   DRA has thoroughly reviewed the latest Department of Health Services  
28 (DHS) annual inspection report and the cover letter included in Exhibit F,  
29 Testimony of Chet Auckly, Director of Water Quality and Environmental Affairs  
30 at CWS. DRA found that CWS has covered the following three important aspects  
31 of water quality in detail to show that: 1) The Westlake District has not exceeded

1 any MCL (maximum contaminant level) or deviated from accepted water quality  
2 procedures since the last general rate case. 2) This district has not been cited by  
3 DHS since the last general rate case. 3) This district has complied with all federal  
4 and state drinking water standards.

5 DRA also contacted DHS in writing directly in early October 2006 asking  
6 the responsible engineers in that agency who have expertise in water quality to  
7 review and to indicate any concerns they may have regarding the water quality  
8 report for this district as submitted by CWS dated July 2006. DRA did not receive  
9 any negative comments from DHS by the end of October 2006.

10 CWS has made a thorough water quality presentation for this district in  
11 this proceeding. CWS has made substantial progress in improving water quality in  
12 this district. DRA agrees that CWS has complied with applicable water quality  
13 standards in this district during the most recent three-year period.

14 (b) The Water Revenue Adjustment Mechanism is excluded from  
15 the scope of this proceeding.

16 (c) The offset rate increase to reflect the General Office allocation  
17 request is excluded from the scope of this proceeding.

18 (d) GO Synergy Memorandum Account

19 CWS requests to amortize the General Office synergies memorandum  
20 account adopted in D. 03-09-021 and merger savings established in D. 04-04-041.  
21 DRA reviews and agrees with CWS' request to amortize \$267,400.

22

1 (e) CWS requests to amortize its purchased water, pumped tax and  
2 purchased power balancing accounts in compliance with ordering paragraph 3 of  
3 D. 06-04-037.

4 As of June 30, 2006 the balancing accounts included in CWS' Exhibit I  
5 shows an under collection of \$683,893 or -6.95% of the annual revenue. DRA  
6 reviewed and agreed that the balancing accounts should be amortized.

7 Ordering paragraph 3 of D. 06-04-037 stated that "Class A water utilities  
8 shall report on the status of their balancing accounts in their general rate cases and  
9 shall propose adjustments to their rates in that context to amortize under-or over-  
10 collections in those accounts subject to reasonableness review. They also may  
11 propose such rate adjustments by advice letter at any time that the under-or over-  
12 collection in any such account exceeds two percent (2%) of annual revenues for  
13 the utility or a ratemaking district of the utility."

14 CWS' request to amortize its purchased water, pumped tax and purchased  
15 power balancing accounts in this district is in compliance with ordering paragraph  
16 3 of D. 06-04-037.

17 (f) CWS requests to file Westlake district's next GRC in 2008

18 CWS' Exhibit E stated that its Westlake district be allowed only one  
19 escalation year increase in July 2008. The Marysville district would be moved  
20 from filing a GRC in 2008 to 2009. The purpose of switching the districts' GRC  
21 timing is to regionalize Cal Water's filing. Westlake would be reviewed with  
22 other districts in Southern California, while Marysville would be reviewed with  
23 other Central Valley districts. DRA does not oppose CWS' request.

## **CHAPTER 13: ESCALATION YEAR INCREASES**

### **A. FIRST ESCALATION YEAR**

On or after November 5, 2007, CWS should be authorized to file an advice letter, with appropriate supporting workpapers, requesting the step rate increase for 2008 authorized by the Commission, or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2007, exceeds the lesser of (a) the rate of return found reasonable by the Commission for CWS for the corresponding period in the most recent rate decision, or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-A. The requested step rates should be reviewed by the Commission's Water Division (Division) to determine their conformity with this order, and should go into effect upon the Division's determination of compliance. The Division should inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than 30 days after filing. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

### **B. SECOND ESCALATION YEAR**

For the second year an attrition adjustment should be granted for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues, with the revenue change to be calculated by multiplying forecasted inflation rate by DRA and operational attrition plus financial attrition times adopted rate base in 2008 times the net-to-gross multiplier.

## C. ESCALATION YEARS INCREASES

The table below shows the Summary of Earnings for Escalation Years 2008-2009 and 2009-2010. To obtain the increases in these years, D. 04-06-018 requires water utilities to file an Advice Letter 45 days prior to the start of the year showing all calculations supporting their requested increases.

The revenues shown in Table 13-1 are for illustration purposes and the actual increases would be authorized only after approval of the utility's advice letter.

TABLE 13-1

### SUMMARY OF EARNINGS

#### CALIFORNIA WATER SERVICE COMPANY WESTLAKE DISTRICT

	DRA 2008-09	DRA 2009-010	% increase
Item	(Thousands of \$)		
Operating revenues	10,074.3	10,236.9	1.6%
Operation & Maintenance	7,731.7	7,863.1	1.7%
Administrative & General	193.0	196.5	1.8%
G.O. Prorated Expense	1,116.3	1,135.3	1.7%
Depreciation & Amortization	407.2	414.1	1.7%
Taxes other than income	191.2	194.4	1.7%
State Corp. Franchise Tax	1.0	0.9	-11.9%
Federal Income Tax	57.9	57.4	-0.8%
Total operating expenses	9,698.3	9,861.7	1.7%
Net operating revenue	376.0	375.2	-0.2%
Rate base	4,529.7	4,520.2	-0.2%
Return on rate base	8.30%	8.30%	0.0%

**APPENDIX A**

**QUALIFICATIONS AND PREPARED TESTIMONY**

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
YOKE W. CHAN, P.E.**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Yoke W. Chan and my business address is 505 Van Ness Avenue, San Francisco, California. I am a Senior Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background.

A2. I graduated from the University of California at Los Angeles, with a Bachelor of Science Degree in Civil Engineering. I am a registered civil engineer in the State of California.

Q3. Briefly describe your educational background and professional experience.

A3. I have been employed by the Commission for many years and have testified and worked on many general rate case proceedings, offset rate cases, transfer and compliance matters of large water utilities. I have also worked on ECAC proceedings for the energy utilities.

Q4. What is your responsibility in this proceeding?

A4. I am the Project Manager for this proceeding and responsible for Chapters 1, 13 and portion of 12 of DRA's Reports on the Results of Operations for Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, Westlake and Willows districts.

Q5. Does this conclude your prepared direct testimony?

A5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
TONI CANOVA**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Toni Canova and my business address is 505 Van Ness Avenue, San Francisco, California. I am in the Water Branch of the Division of Ratepayer Advocates as a Public Utility Regulatory Analyst IV.

Q2. Please summarize your education background and professional experience.

A2. I graduated from The Evergreen State College in Olympia, Washington, with a Bachelor of Arts Degree in Environmental Studies. I have been employed by the Commission for three years. Previously, I was employed by the Department of Ecology's Water Quality Program for the State of Washington.

Q3. What is your responsibility in this proceeding?

A3. I am responsible for Result of Operation tables for Bakersfield, King City, and Selma Districts, Chapter 2 testimony, Water Consumption and Operating Revenues, for all eight districts, and the Selma district Special Request (F) for Phase-in revenue requirement.

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
VIBERT GREENE**

Q.1. Please state your name and address.

A.1. My name is Vibert Greene. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Utilities Engineer in the Division of Ratepayer Advocates Water Branch.

Q.3. Please briefly describe your educational background and work experiences.

A.3. I have a: Ph D in research in Pressure Driven Ultra-filtration and Master of Engineering at the University of California, Berkeley; Masters of Science in Engineering from San Jose University; Bachelor of Science in Mechanical Engineering and Bachelor of Arts in Mathematics from the University of Hawaii, Honolulu. I also completed Management training at Leigh University. I attended both the NARUC Western Utility Rate School Seminar in the basics of utility ratemaking for regulated entities and the National Regulatory Research Institute Seminar on Public Utility Regulation in the 21st Century.

After graduation from Berkeley, I joined the California Public Utilities Commission. I am presently employed as a Utilities Engineer in the Ratepayer Representation Branch of the Water Division dealing with class A Water Utilities. Since joining the Commission in 1998 as a Utilities Engineer, I have worked on several Class A, B and C Water Utilities' Rate Cases. My duties and responsibilities covered all aspect of a Rate Case including but not limited to: Rate Design, Rate Base, Operation and Maintenance Expenses, Taxes-General, Administration and General Office Expenses, Depreciation, Revenues and Utility Plant in Service. In addition, I have worked on several formal proceedings including evaluation studies and other investigations initiated by the Commission. My duties and responsibilities also require participation in Public Hearings, giving expert testimony before the Commission, conducting Field Audits of Utilities Plant and writing Reports.

Prior to joining the Commission, I worked in the private sector for 20 plus years. My work experiences included several years in Design Engineering, Process Engineering, Research and Development, Program Management and Project management. I have managed several special projects; including several years Project Management experience--managing projects for an International Consortium which consisted of Companies from Japan, Italy and France. Five years Program Management as the Test Director for a National Consortium which consisted of five-agencies located in three States. I am also a part-time Mathematics instructor at the Evergreen College in San Jose, and hold two mechanical device patents.

Q.4. What is your area of responsibility in this proceeding?

A.4. In the Results of Operations I am responsible for a preparing Chapter 3—Operation and Maintenance, and Chapter 6—Income Taxes.

Q.5. Does that complete your prepared testimony?

A.5. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
CLEASON D. WILLIS**

Q.1. Please state your name and business address.

A.1. My name is Cleason D. Willis. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission as a Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I graduated from the California State University of Hayward with a Bachelor of Science Degree in Business Administration and Finance, and a Master of Science Degree in Public Administration and Management. After graduation I joined the California Public Utilities Commission. Since that time I have performed economic, and reasonableness analysis for various Electrical, Gas, Water, and Telecommunications operations. I have written reports, and testified regarding the validity of my findings and recommendations concerning my analysis for various utility proceedings.

Q.4. What is your area of responsibility in this proceeding?

A.4. I am responsible for the Administration and General Expenses, and Taxes Other Than Income chapters for the California Water Service Company General Rate Case.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
CLEMENT T. LAN, P.E.**

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Clement T. Lan and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a licensed Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Science degree in Mechanical Engineering from the California Polytechnic State University at San Luis Obispo in June 1972 and a Masters of Science degree in Mechanical Engineering from the University of California at Berkeley in December 1973. I have taken various courses on ratemaking topics within the last eight years at the commission.

Q.3 Please summarize your business experience.

A.3 After graduation from the University of California at Berkeley, I first worked in the private industry as a design engineer on industrial facilities for about four years and then worked in the federal government as a project engineer on general facilities including utility systems for about twenty years. I joined the Commission in January of 1999 and have worked on various Class A rate cases involving some administrative & general expenses and operation & maintenance expenses and numerous utility plant-in-service, depreciation, and ratebase issues.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for Chapter 7 (Plant In Service) for the Bakersfield, King City, Selma, South San Francisco and Westlake districts of California Water Service Company in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
JOYCE W. STEINGASS, P.E.**

Q1. Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A1. My name is Joyce W. Steingass. My business address is 505 Van Ness Avenue, San Francisco, California. My job title is Utilities Engineer and I work in the Water Branch of the Division of Ratepayer Advocates.

Q2. Please summarize your education background and professional experience.

A2. I am a graduate of the University of California, Berkeley, with a Bachelor of Science in Mechanical Engineering. I am a licensed professional Mechanical Engineer in the State of California. I have been employed by the California Public Utilities Commission since 2005. My current assignment is within the Division of Ratepayer Advocates where I work on Class A General Rate Cases. Prior to joining CPUC, I was a management consultant at Barrington-Wellesley Group, performing investigations of energy companies for regulatory Commissions in other states. Before that I was a utility consultant for Navigant Consulting. Earlier in my career, I was employed by Pacific Gas and Electric Company for seventeen years where my most recent position was the Director of Distribution Quality Assurance, in charge of audits related to gas and electric distribution operations. During my career with PG&E, I was the Pipeline Replacement Superintendent for PG&E's San Francisco Division for three years. That project entailed overseeing the replacement of cast iron and pre-1930s steel natural gas distribution pipelines.

Q3. What is your responsibility in this proceeding?

A3. I am the witness responsible for Utility Plant in Service and Depreciation Expenses and Reserve. I prepared the following chapters of DRA's report:

- Chapter 8 – Depreciation Expenses and Reserve
- Chapter 9 – Rate Base and Net to Gross Multiplier;

Q4. Does this conclude your prepared direct testimony?

A4. Yes, it does.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
KATIE LIU**

Q.1. Please state your name and business address.

A.1. My name is Katie Liu. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission - DRA Water Branch – as a Public Utilities Regulatory Analyst.

Q.3. Please briefly describe your educational background and work experience.

A.3. I am a graduate of the University of California, Los Angeles with a Bachelor's degree in Economics. I have been employed by the California Public Utilities Commission since 2006. My current assignment is within DRA – Water where I work on Class A General Rate Cases.

Q.4. What are your responsibilities in this proceeding?

A.4. I am responsible for Chapter 10, Customer Service of DRA's Water Branch Report for California Water Service Company in this proceeding.

Q.5. Does this conclude your prepared testimony?

A.5. Yes.

**QUALIFICATIONS AND PREPARED TESTIMONY  
OF  
TATIANA OLEA**

Q. Please state your name and business address.

A. My name is Tatiana Olea. My business address is 505 Van Ness Avenue, San Francisco, California 94102.

Q. By whom, and in what capacity are you employed?

A. I am employed by the Public Utilities Commission of California (CPUC) as a Public Utilities Regulatory Analyst (PURA) IV in the Division of Ratepayer Advocates, Water Branch.

Q. Please summarize your educational background and work experience.

A. In 1998, I completed a graduate program at Syracuse University where I received a master in Public Administration with a concentration in Public Finance from the Maxwell School. My undergraduate degree is in Anthropology and Sociology from Saint Mary's College in Moraga, California. After completing graduate school, I joined the government practice of PriceWaterhouse (now PriceWaterhouseCoopers) and later worked as an analyst for the Federal Reserve Bank of San Francisco. After the Federal Reserve, I returned to consulting with Bartle Wells Associates of Berkeley, CA., where I specialized in water and sewer rate design and revenue bond financing. Since leaving the Federal Reserve in 2001, I have worked on consulting assignments with public agencies, engineers, and other professionals to evaluate financing alternatives for public projects.

My experience includes extensive rate design and financing work for municipal water and sewer utilities. I have developed water, sewer, and recycled water rate structures including designing tiered rate structures. I prepared long-range financial plans for utilities and prepared preliminary official statements and related documents for municipal bond sales. Last year, I served as Senior Analyst in two utility revenue bond financings totaling over \$115 million. I have also developed and implemented development impact fees and user charges.

In municipal rate design cases, I served as expert witness and testified in front of governing bodies during public hearings approximately 20 times.

I joined the staff of the CPUC in September of this year. My current assignments include rate cases, evaluation of tiered rates and analyzing the impact of decoupling (WRAM). I am project lead for the current California Water Services Company compliance filing and I am sponsoring rate design testimony in the CalAm GRC.

Q. What is the purpose of your testimony today?

A. I am sponsoring Chapter 11, Rate Design, of the DRA's Report on CWS' GRC.

Q. Does that complete your prepared direct testimony in this proceeding?

A. Yes, at this time.